SIR Royalty Income Fund

2022 Annual Report

To our Unitholders,

On behalf of SIR Corp. (“SIR”) and SIR Royalty Income Fund (the “Fund”), please find enclosed the Fund’s 2022 Management’s Discussion and Analysis and Financial Statements.

The state of the Canadian restaurant and bar industry trended positively following the gradual easing of pandemic-related operating restrictions during the first quarter of the year. As of mid-March 2022, all the remaining restrictions affecting indoor dining operations in each of the provinces where SIR operates were lifted.

The absence of government-mandated restrictions resulted in significant increases to Pooled Revenue and Same Store Sales for the Royalty Pooled Restaurants, as SIR’s restaurants returned to full operating capacity. For 2022, Pooled Revenue increased 75.8% to $240.7 million, compared to $136.9 million in 2021, and Same Store Sales increased 76.7%. Accordingly, cash available for distribution increased to $11.5 million in 2022, and cash distributions to unitholders totaled $10.7 million for the year, resulting in a payout ratio of 93.4%. This compares to cash available for distribution of $5.0 million and a payout ratio of 99.9% in 2021, reflecting the resumption of monthly unitholder distributions in July of that year.

From January to September 2022, the Fund paid monthly distributions of $0.09 per unit. In October 2022, with the strengthening sales performance of the Royalty Pooled Restaurants, the Trustees of the Fund approved a 5.6% distribution increase, and the Fund paid monthly distributions of $0.095 per unit from October through to 2022 year-end. Further, during July 2022, the Fund paid a special distribution to unitholders of $0.135 per unit, reflecting excess distributable cash available, as SIR made its final scheduled payments of deferred royalties and interest on the SIR Loan in mid-June 2022. To cap off the year, the Fund made a further special year-end cash distribution to unitholders of $0.05 per unit in December, again reflecting excess distributable cash available.

Throughout the pandemic, SIR made significant investments and/or incurred additional expenses to enhance guest and team member safety, while also taking steps to maximize its business opportunities and seating capacity under pandemic-related business restrictions. With the return to a more normalized operating environment, SIR has resumed its pre-pandemic commitment towards investing in its restaurants to continually elevate its brands and drive growth for the benefit of all our stakeholders. SIR completed renovations to five Jack Astor’s locations during 2022, implementing a refreshing, more contemporary and immersive guest-facing experience. Subsequent to year-end, SIR completed renovations to one additional Jack Astor’s location and has plans to complete similar restaurant renovations throughout 2023.

SIR is also investing in new restaurants. SIR opened two new restaurants through the conversion of its two remaining Canyon Creek locations during 2022. In the first quarter of 2022, SIR converted the Canyon Creek location at the Fallsview Casino Resort in Niagara Falls, Ontario, into a new Reds. The new Reds Kitchen + Wine Bar Fallsview opened on March 31, 2022, and was added to the Royalty Pooled Restaurants effective January 1, 2023.

The last remaining Canyon Creek restaurant, located in Etobicoke, Ontario, near Pearson International Airport, was permanently closed during the second quarter of 2022, and SIR converted it into a new Scaddabush restaurant, which opened on August 1, 2022. This new Scaddabush was also added to the

Royalty Pooled Restaurants effective January 1, 2023. SIR recently committed to lease a new property in Whitby, Ontario, upon which it plans to develop and build its eleventh Scaddabush location.

Throughout the pandemic, SIR continued to innovate, introducing expanded take-out and delivery offerings, including various takeaway meal kits, and bundled food and beverage offerings across its brand portfolio. SIR also launched a ghost kitchen concept called Renegade Chicken on a trial basis to increase sales volume during the pandemic. While the Fund has no ownership interest in the Renegade Chicken trademark, SIR has made payments to the SIR Royalty Limited Partnership in an amount equal to 6% of the revenues earned from the trial. The Trustees have approved a further extension of the trial, under the existing terms, until December 31, 2023.

Prior to the pandemic, take-out and delivery sales comprised approximately 5% of SIR's food and beverage revenue. Through the development of these new product and service offerings, SIR's take-out and delivery sales have grown significantly. SIR's launch of *"Service Inspired Rewards",* a cross-brand mobile application that enables patrons to make dine-in reservations, order takeout at preferred rates, and access several other unique features, enhances guest experiences and builds brand loyalty. SIR continues to focus on staff training and dine-in service excellence to create a more rewarding experience for new and returning guests.

Looking ahead, SIR will continue to innovate and provide immersive new product and service offerings to increase dine-in guest visits to Jack Astor's, Scaddabush, Reds and the Loose Moose and to also capitalize on growing consumer demand for quality take-out and delivery food and beverage options to drive growth in Pooled Revenue for the benefit of Fund unitholders.

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

On behalf of the Trustees, and everyone at SIR, thank you for your continued support.

Sincerely,

Peter Fowler
Chief Executive Officer, SIR Corp.

Norm Mayr
Chair, SIR Royalty Income Fund

SIR ROYALTY INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2022

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Executive Summary

Operational and financial results summary for the three-month period ("Q4 2022") and year ended ("Fiscal 2022") December 31, 2022 for SIR Royalty Income Fund (the "Fund") include:

Coronavirus ("COVID-19") Pandemic

- The state of the restaurant and bar industry trended positively following the easing of government mandated operating restrictions during Q1 2022. As of mid-March 2022, all of the remaining indoor dining operating restrictions in each of the provinces where SIR operates were lifted.
- For more details regarding the operating restrictions that have impacted the SIR Royalty Income Fund (the "Fund") and SIR Corp. ("SIR") from the onset of the pandemic up until the lifting of all remaining operating restrictions in March 2022, please refer to the Fund and SIR's prior interim and annual filings, which can be found on SEDAR at www.sedar.com under the Fund's profile.
- For the 52-week period ended August 28, 2022, SIR recognized government assistance through the Canada Emergency Wage Subsidy ("CEWS") and Canada Recovery Hiring Program ("CRHP")/ Tourism and Hospitality Recovery Program ("THRP") programs of $12.3 million (August 29, 2021 - CEWS program of $22.1 million), the Canada Emergency Rent Subsidy ("CERS") and CRHP/THRP programs of $2.1 million (August 29, 2021 - CERS program of $4.9 million), and other government subsidies of $0.8 million (August 29, 2021 - $4.2 million). Of these amounts $14.7 million (August 29, 2021 - $24.1 million) was recognized as a reduction to costs of corporate restaurant operations and $0.5 million (August 29, 2021 - $3.2 million) was recognized as a reduction to corporate costs and $nil (August 29, 2021 - $3.9 million) was recognized as other expense (income). The CRHP and THRP programs commenced on October 24, 2021 and ended on May 7, 2022.

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

- The Royalty Pooled Restaurants had SSS[(1)] increases of 40.0% and 76.7% in Q4 2022 and Fiscal 2022, respectively, compared to the corresponding periods a year ago. Pooled Revenue increased by 36.6% to $64.9 million in Q4 2022, compared to $47.5 million in the three-month period ended December 31, 2021 ("Q4 2021"), and increased by 75.8% to $240.7 million in Fiscal 2022, compared to $135.8 million in the year ended December 31, 2021 ("Fiscal 2021").
- Jack Astor's®, which accounted for approximately 72.8% of Pooled Revenue in Q4 2022, had SSS[(1)] increases of 39.3% and 71.6% in Q4 2022 and Fiscal 2022, respectively.
- Scaddabush Italian Kitchen & Bar ("Scaddabush")® had SSS[(1)] increases of 32.4% and 69.5% in Q4 2022 and Fiscal 2022, respectively.
- SIR's Signature Restaurants had SSS[(1)] increases of 74.6% and 251.3% in Q4 2022 and Fiscal 2022, respectively.

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

- Royalty income in the Partnership increased to $3.9 million in Q4 2022 from $2.8 million for Q4 2021, and increased to $14.4 million in Fiscal 2022 from $8.2 million in Fiscal 2021. Other income in the Partnership was $nil in Q4 2022 and Fiscal 2022 ($nil in Q4 2021 and $0.1 million in Fiscal 2021).
- Equity income from the Partnership, which represents the Fund's pro rata share of the residual distributions of the Partnership, was $2.6 million in Q4 2022 compared to $1.6 million in Q4 2021. Equity income was $10.8 million in Fiscal 2022 compared to $3.7 million in Fiscal 2021.
- Pursuant to SIR's amended Credit Agreement, previously deferred restaurant royalties to the Partnership and interest on the SIR Loan owing to the Fund were fully repaid over 10 monthly installments of $0.5 million and $0.4 million, respectively, during Fiscal 2022. The final scheduled deferral payments were made by SIR on June 15, 2022, enabling SIR to extinguish all liabilities related to these deferred amounts.

(1) Same store sales ("SSS"), same store sales growth ("SSSG"), Distributable cash and payout ratio are non-GAAP financial measures and do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). For additional information regarding these financial measures, including full details on how these financial measures are calculated, see the "Description of Non-IFRS Measures" section of this MD&A (page 22).

- The Partnership recognized an impairment recovery of $1.7 million during Fiscal 2022 (Fiscal 2021 – impairment recovery of $0.1 million) on the royalty payments receivable. The Fund recognized an impairment recovery of $0.9 million (Fiscal 2021 - impairment recovery of $0.1 million) on the interest receivable from SIR based on the repayment of all previously deferred amounts owing during Fiscal 2022 and management's assessment of the SIR-specific risk. Given the reduction of the SIR-specific risk and the repayments to date, management has applied a discount rate of 7.5% on the Partnership's royalty receivables as at December 31, 2022.
- As SIR continues to recover from the effects of the pandemic and as a result of sustained and continued improvements to the revenue associated with the SIR Rights that were previously impaired, the Partnership recognized an impairment reversal on the SIR Rights, as defined in the Overview and Business of the Fund section on page 7, of $54.2 million during Q2 2022, resulting in an impairment recovery on the Fund's investment in the Partnership of $29.1 million during Fiscal 2022. Refer to the "Valuation of the SIR Loan and Investment in the Partnership" section on page 21 for more information.

Net Earnings

- Net earnings were $7.8 million for Q4 2022 compared to $2.3 million for Q4 2021.
- Net earnings were $44.4 million for Fiscal 2022 compared to $4.9 million for Fiscal 2021.
- The reversal of the previous impairment to the SIR Rights and the Fund's investment in the Partnership had an impact on net earnings of $nil and $30.1 million in Q4 2022 and Fiscal 2022, respectively.
- Net Earnings per Fund unit were $0.93 (basic) and $0.84 (diluted) for Q4 2022 compared to $0.27 (basic) and $0.27 (diluted) for Q4 2021. Net earnings per Fund unit were $5.30 (basic) and $4.75 (diluted) for Fiscal 2022 compared to $0.59 (basic) and $0.58 (diluted) for Fiscal 2021.

Distributable Cash[(1)] and Payout Ratio[(1)]

- Distributable cash[(1)] per Fund unit was $0.22 (basic and diluted) for Q4 2022 compared to $0.33 (basic) and $0.31 (diluted) for Q4 2021, and was $1.37 (basic) and $1.34 (diluted) for Fiscal 2022 compared to $0.60 (basic) and $0.59 (diluted) for Fiscal 2021. Please refer to the Distributions section on page 6 and Distributable Cash[(1)] on page 12.
- The Fund's payout ratio[(1)] was 155.8% in Q4 2022 compared to 111.1% in Q4 2021, and 93.4% in Fiscal 2022 compared to 99.9% in Fiscal 2021. The payout ratio[(1)] since the Fund's inception, up to and including Q4 2022, is 100.0%.
- The increase in distributable cash [(1)] is primarily attributable to the removal of pandemic-related operating restrictions during Q1 2022, which resulted in increased Pooled Revenue, SSS[(1)] and Net earnings of the Fund.

Amendments to SIR's Credit Agreement, payment of royalties and interest on the SIR Loan

For more details regarding the summary statements on covenant breaches and credit amendments that occurred since the onset of the pandemic up until the latest amendments on June 16, 2022, please refer to the Fund and SIR's prior interim and annual filings, which can be found on SEDAR at www.sedar.com under the Fund's profile.

- On June 16, 2022, SIR entered into the Ninth Amending Agreement ("Ninth Amendment") to its Credit Agreement, which among other things, extended the maturity date of the credit facilities to July 6, 2023. SIR's lender approved the replacement of the Cumulative Minimum EBITDA financial covenant with the two original, pre-pandemic, financial covenants in the Credit Agreement -- the Fixed Charge Coverage Ratio and the Senior Leverage Ratio.
- The Third, Fourth, Fifth, Sixth, Seventh, Eighth and the Ninth Amending Agreements are filed on SEDAR.
- For details on all of the agreements entered into, please refer to the Liquidity and Capital Resources section on page 16.

Same Store Sales ("SSS") [(1)]

SIR reported to the Fund that the Royalty Pooled Restaurants had a cumulative SSS[(1)] increase of 40.0% in Q4 2022 and 76.7% in Fiscal 2022. SSS[(1)] are typically impacted by changes in guest traffic, average cheque amount and other factors as identified below.

Segmented SSS[(1)] performance for Q4 2022 and Fiscal 2022 is detailed in the following table:

	Three-month period ended				**Twelve-month period ended**			
(in thousands of dollars except percentage of segmented same store sales) (unaudited)	December 31, 2022 Segmented Same Store Sales	December 31, 2021 Segmented Same Store Sales	December 31, 2022 Change in Segmented Same Store Sales (%)	December 31, 2021 Change in Segmented Same Store Sales (%)	December 31, 2022 Segmented Same Store Sales	December 31, 2021 Segmented Same Store Sales	December 31, 2022 Change in Segmented Same Store Sales (%)	December 31, 2021 Change in Segmented Same Store Sales (%)
Jack Astor's	47,230	33,890	39.4%	111.9%	179,747	104,761	71.6%	19.1%
Scaddabush	12,803	9,672	32.4%	164.2%	45,580	26,889	69.5%	23.7%
Signature	4,833	2,768	74.6%	1165.9%	14,693	4,183	251.3%	(12.8%)
Overall SSS[(1)]	**64,866**	**46,330**	**40.0%**	**134.6%**	**240,020**	**135,833**	**76.7%**	**17.9%**

The significant increases in SSS[(1)] for Q4 2022 and Fiscal 2022 reflect the gradual easing and subsequent removal of all pandemic-related operating restrictions during the latter half of Q1 2022 across all provinces in which SIR operates. Bar and restaurant operating restrictions and/or closures were in effect throughout Q1 2021 and Q2 2021 until June 2021, when outdoor patios and dining rooms were partially re-opened, which continued throughout Q3 2021. Operating restrictions were increased again late in Q4 2021 due to the Omicron variant and this continued to impact SIR's operations into Q1 2022.

Jack Astor's, which accounted for approximately 72.8% of Pooled Revenue in Q4 2022, had SSS[(1)] growth of 39.4% and 71.6% in Q4 2022 and Fiscal 2022, respectively. Jack Astor's performance includes 37 locations. The increases reflect the easing of pandemic-related operating restrictions during Q1 2022, as described above. SIR temporarily closed four of its Jack Astor's locations in Q4 2022 for periods ranging from five to 11 days to complete renovations, which had a negative impact on SSS[(1)] for the quarter.

Scaddabush SSS[(1)] performance for Q4 2022 includes nine locations. Scaddabush had SSS[(1)] growth of 32.4% and 69.5% in Q4 2022 and Fiscal 2022, respectively, due to the easing of pandemic-related operating restrictions during Q1 2022, as described above.

The three Signature Restaurants that were part of the Royalty Pooled Restaurants during Fiscal 2022 are Reds® Wine Tavern, Reds® Square One and the Loose Moose Tap & Grill®. SSS[(1)] growth of 74.6% and 251.3% in Q4 2022 and Fiscal 2022, respectively, reflects the gradual return to full operating capacity in Q1 2022. These Signature Restaurants were effectively closed in Q1 2021 and Q2 2021.

Restaurant Renovations

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

During Fiscal 2022, SIR completed the following five restaurant renovations:

- The Jack Astor's in North London, Ontario was closed for five days during Q3 2022 for renovations,
- The Jack Astor's in Whitby, Ontario was closed for eight days during Q4 2022 for renovations,
- The Jack Astor's in Barrie, Ontario was closed for eleven days during Q4 2022 for renovations,
- The Jack Astor's in Brampton, Ontario was closed for nine days during Q4 2022 for renovations, and
- The Jack Astor's in Don Mills, Toronto was closed for five days during Q4 2022 for renovations.

These renovations were undertaken to implement a refreshing, more contemporary and immersive guest facing experience.

During Fiscal 2021, SIR completed one restaurant renovation:

- The Jack Astor's located at the Square One shopping centre in Mississauga, Ontario was closed for nine days to complete a renovation during Q4 2021. The upgrades served to implement a more engaging and immersive guest facing experience for younger guests.

New and Closed Restaurants

SIR currently owns 53 restaurants, including one seasonal restaurant, in Canada. Since the Fund's Initial Public Offering in October 2004, SIR has opened 43 new restaurants (22 Jack Astor's, four Canyon Creek restaurants, 10 Scaddabush restaurants, four Reds restaurants, two Duke's Refresher® + Bar locations ("Duke's Refresher"), and one seasonal Abbey's Bakehouse® restaurant) and one seasonal Abbey's Bakehouse retail outlet. During this same period, SIR closed 20 restaurants (six Jack Astor's restaurants, six Canyon Creek restaurants, three Alice Fazooli's restaurants, one Reds, three Signature restaurants and one Scaddabush restaurant) and the seasonal Abbey's Bakehouse retail outlet.

During Q1 2022, SIR converted its Canyon Creek location at the Fallsview Casino Resort in Niagara Falls, Ontario, into a new Reds. The new Reds® Kitchen + Wine Bar Fallsview opened on March 31, 2022. This former Canyon Creek location was a Royalty Pooled Restaurant, but it had not been in operation since the onset of the pandemic in mid-March 2020. In accordance with the License and Royalty Agreement between SIR and the Partnership, this former Canyon Creek location was treated as a permanently closed restaurant and the new Reds Kitchen + Wine Bar Fallsview became a new Royalty Pooled Restaurant effective January 1, 2023.

The last remaining Canyon Creek restaurant, located in Etobicoke, Ontario, in close proximity to the Pearson International Airport, was permanently closed effective May 23, 2022. SIR opened a new Scaddabush restaurant at this location on August 1, 2022, which was added to the Royalty Pooled Restaurants effective January 1, 2023.

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 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 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 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 pandemic drastically altered SIR's operating environment and put a great deal of stress on many businesses, including SIR. As a result, during Fiscal 2021, SIR permanently closed six restaurants, including:

- 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 February 9, 2021, SIR permanently closed three restaurants located at the corner of Yonge and Gerrard in downtown Toronto, including a Scaddabush, Reds Midtown Tavern and a Duke's Refresher. The Scaddabush and Reds locations were part of the Royalty Pool, but the Duke's Refresher was not.
- Effective March 31, 2021, SIR permanently closed the Canyon Creek location in Vaughan, Ontario.

During Fiscal 2021, SIR only completed one restaurant renovation (the Jack Astor's located at the Square One shopping centre in Mississauga, Ontario) due to the impact of COVID-19 on its cash flows and financial liquidity. During this time however, SIR made significant investments and/or incurred significant additional expenses to enhance guest and team member safety as well as taking steps to maximize its business opportunities and seating capacity under COVID-19 related business restrictions. This spending included, but was not limited to, extended patios and associated furniture, plexiglass barriers, revisions to dining room seating configurations, personal protective equipment for personnel, contact tracing and other guest safety measures.

Distributions

Distributions to unitholders are intended to be made monthly in arrears based on distributable cash(1) and cash redemptions of Fund units and subject to the Fund retaining such reasonable working capital and other reserves as may be considered appropriate by the Trustees of the Fund. It is the Fund's intention to pay even distributions and, if possible, maintain consistent monthly distributions to unitholders. The Fund intends to make monthly distributions of its available distributable cash(1) to the extent possible.

During Fiscal 2022, distributions of $0.09 per Fund unit were declared and paid in the months of January to September 2022. A special cash distribution of $0.135 was also declared and paid during the month of July 2022, reflecting SIR's repayment of all previously deferred royalties and interest owed as at June 30, 2022, which resulted in the Fund having excess cash available to distribute to unitholders.

Subsequent to September 30, 2022, the Fund announced a $0.005 increase in the monthly cash distribution, resulting in an increase in the Fund's monthly cash distributions from $0.09 per Fund unit to $0.095 per Fund unit. The increased distribution was declared and paid during the months of October to December 2022. A special cash distribution of $0.05 was also declared and paid during the month of December 2022, as the Fund had excess distributable cash(1) available.

Subsequent to Fiscal 2022, distributions of $0.095 per Fund unit were declared and paid on January 31, 2023 and February 28, 2023, to unitholders of record as at January 19, 2023 and February 17, 2023, respectively. Distributions of $0.095 per Fund unit were declared on March 15, 2023 and payable on March 31, 2023, to unitholders of record as at March 24, 2023.

The payout ratio(1) of cash distributed to distributable cash(1) is intended to average 100% per annum over the long term. The Fund pays even monthly distributions to unitholders, while its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR). As a result, there are times during the year when the Fund's payout ratio(1) exceeds or could be lower than 100%. The payout ratio(1) of cash distributed to distributable cash(1) for Q4 2022 was 155.8%, compared to 111.1% for Q4 2021 and 93.4% for Fiscal 2022 compared to 99.9% for Fiscal 2021. The payout ratio(1) since the Fund's inception in 2004, up to and including Q4 2022, is 100.0%, which is in line with the Fund's target payout ratio of 100%.

Please refer to page 12 for distributable cash(1) and a description of the Fund's payout ratio(1) and page 13 for a summary of monthly distributions since inception.

Overview and Business of the Fund

On October 1, 2004, the Fund filed a final prospectus for an initial public offering of units of the Fund (the "Offering"). The net proceeds of the Offering of $51.2 million were used by the Fund to acquire, directly, certain bank debt of SIR and indirectly, through SIR Holdings Trust (the "Trust"), all of the Ordinary LP Units of the Partnership. The Partnership owns the Canadian trademarks (the "SIR Rights") formerly owned or licensed by SIR or its subsidiaries and used in connection with the operation of the majority of SIR's restaurants in Canada. The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the "License and Royalty Agreement"). The Partnership also issued its own securities to SIR in return for the SIR Rights acquired. The Fund indirectly participates in the revenue generated under the License and Royalty Agreement through its investment in the Partnership. The Partnership's financial statements are provided separately at www.sedar.com under the SIR Royalty Income Fund profile "Other" category and on SIR's website at www.sircorp.com.

The units of the Fund are publicly traded on the Toronto Stock Exchange under the symbol SRV.UN.

Overview and Business of SIR and the Partnership

SIR, which stands for Service Inspired Restaurants, is a private company amalgamated under the Business Corporations Act of Ontario. As at December 31, 2022, SIR owned 53 Concept Restaurants and Signature Restaurants in Canada (in Ontario, Quebec, Nova Scotia, and Newfoundland). The Concept Restaurants are Jack Astor's Bar and Grill and Scaddabush Italian Kitchen & Bar. The Signature Restaurants are Reds Wine Tavern, Reds Square One, Reds Kitchen + Wine Bar Fallsview and the Loose Moose Tap & Grill. As at December 31, 2022, SIR also owned one Duke's Refresher restaurant located in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse, which are considered Signature restaurants, but are not part of Royalty Pooled Restaurants. SIR owns 100% of its Canadian restaurants. As at December 31, 2022, 51 SIR Restaurants were included in Royalty Pooled Restaurants.

SIR believes that Duke's Refresher has multi-unit growth potential and has advised the Fund that Duke's Refresher should be considered as a potential New Concept Restaurant brand. As such, the earliest that any Duke's Refresher could be added to the Royalty Pool would be the Adjustment Date following the earlier of: (i) the date that four Duke's Refresher restaurants are open for business at the same time, and (ii) 90 days following the end of SIR's fiscal year in which revenues from all Duke's Refresher restaurants in Canada first exceed $12.0 million (the "Trigger Event"). As neither of these events occurred before August 28, 2022, Duke's Refresher was not added to the Royalty Pool on January 1, 2023.

The Partnership has the option for a period of six months following delivery of notice of the Trigger Event by SIR to purchase, effective on the next Adjustment Date, any and all associated Canadian trade-mark rights in respect of Duke's Refresher (the "Duke's Refresher Rights"), subject to the Partnership licensing the Duke's Refresher Rights back to SIR for a period of 99 years. SIR and the Partnership have the opportunity to negotiate and agree upon the amount of the consideration to be paid to SIR for the Duke's Refresher Rights. Under circumstances that are similar to those involving the SIR Rights, it is expected that the principles underlying the valuation of the Royalty and the Determined Amount as they relate to the SIR Rights shall apply, with necessary changes, to the extent deemed appropriate under the circumstances. If the Partnership elects not to exercise its option, or if the Partnership and SIR fail to agree on the terms of the purchase of the Duke's Refresher Rights, the Partnership shall have a right of first refusal, so long as the License and Royalty Agreement concerning the SIR

Rights remains in effect, and exercisable for a period of 30 days from the date the Partnership receives notice and details of the proposed terms of the third party offer, to purchase the Duke's Refresher Rights should SIR wish to sell, directly or indirectly, all or substantially all of the Duke's Refresher Rights to a third party dealing at arm's length with SIR.

If the Partnership elects not to exercise the foregoing option, then, subject to the right of first refusal, SIR shall be free to operate the business relating to Duke's Refresher and exploit the Duke's Refresher Rights on its own behalf or otherwise.

On January 1 of each year (the "Adjustment Date"), the restaurants subject to the Partnership Agreement are adjusted for new restaurants that have been open for at least 60 days prior to the Adjustment Date and which were not previously included in Royalty Pooled Restaurants. Under the formula as defined in the Partnership Agreement, the number of Class A GP Units issued to SIR on the Initial Adjustment date is equal to 80% of the estimated value of the additional Royalty revenue. Additional Class B GP Units may be converted to Class A GP Units in respect of these new SIR Restaurants if the actual revenues of the new SIR Restaurants exceed 80% of the Initial Adjustment Date's estimated revenue applied to the formula defined in the Partnership Agreement. Conversely, Class A GP Units would be converted to Class B GP Units by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the Initial Adjustment Date's estimated revenue. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

In December of each year, an additional distribution will be payable to the Class B GP Unitholders based on actual revenues of the new SIR Restaurants exceeding 80% of the Initial Adjustment Date's estimated revenue or there will be a reduction in the cash distributions to the Class A GP Unitholders if revenues are less than 80% of the Initial Adjustment Date's estimated revenue. The additional distribution results in an adjustment to SIR's share of the Partnership income to reflect the actual contribution of the revenues of the new SIR Restaurants for the fiscal year. As this amount is not declared until December 31st, when the actual revenues for the New Additional Restaurants are known, the effect of this adjustment is not included in the results of quarters one through three.

The Partnership has granted SIR a 99-year license to use the SIR Rights in most of Canada in consideration for a Royalty, payable by SIR to the Partnership, equal to 6.0% of the revenue of the Royalty Pooled Restaurants. The Partnership also issued its own securities to SIR in return for the SIR Rights acquired.

The Class A GP Units are entitled to receive a pro rata share of all residual distributions of the Partnership and are exchangeable into Units of the Fund on a one for one basis.

SIR began offering Renegade Chicken takeout and delivery services again on a trial basis as of January 27, 2022 and it is expected to continue until December 31, 2023, as approved by the Trustees of the Fund on December 15, 2022 (refer to the "New and Closed Restaurants" section of this MD&A for further information about the agreement between SIR and the Partnership).

On January 1, 2023, two new SIR Restaurants were added to the Royalty Pooled Restaurants (January 1, 2022 – nil) in accordance with the Partnership Agreement. There were no Second Incremental Adjustments on January 1, 2023 as no new SIR Restaurants were added to the 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 to the 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 SIR Restaurants during 2022 (January 1, 2022 – five). The net effect of these adjustments to the 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 $1.5 million (January 1, 2022 – reducing the value of the SIR rights by $8.1 million).

In addition, there were no conversion distributions effective in December 2022, as no new SIR Restaurants were added to the Royalty Pooled Restaurants on January 1, 2022 (January 1, 2022 – revenues of 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 and, as a result, a special conversion distribution of $0.1 million was declared on the Class B GP units in December 2021 and paid in January 2022).

SIR's fiscal year is comprised of 13 periods of four weeks each, ending on the last Sunday in August. To preserve this year-end, an additional week must be added approximately every five years. Fiscal quarters of SIR consist of accounting periods of 12, 12, 12 and 16 (or 17) weeks. SIR's fiscal years for 2022 and 2021 both consisted of 52 weeks.

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

Seasonality

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

Selected Consolidated Financial Information

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

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

Financial Highlights

(in thousands of dollars or units, except restaurants and per unit amounts) (audited)	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Royalty Pooled Restaurants	51	56
Pooled Revenue generated by SIR	240,679	136,937
Royalty income to Partnership - 6% of Pooled Revenue	14,441	8,216
Other Income	-	68
Total Royalty and Other income to Partnership	14,441	8,284
Partnership other income	24	24
Recovery of impairment of financial and intangible assets	55,973	99
Partnership expenses	(130)	(172)
Partnership earnings	70,308	8,235
SIR's interest (Class A, B and C GP Units)	(5,037)	(4,519)
SIR's interest (recovery of impairment of intangible and financial assets)	(54,435)	-
Partnership income allocated to Fund(2)	10,836	3,716
Recovery of investment in Partnership and financial assets	30,066	60
Other income	49	348
Change in estimated fair value of the SIR Loan(3)	8,000	3,000
	48,951	7,124
General & administrative expenses	(625)	(569)
Net earnings before income taxes of the Fund	48,326	6,555
Income tax expense	(3,917)	(1,645)
Net earnings for the period	44,409	4,910
Basic earnings per Fund unit	$5.30	$0.59
Weighted average number of Fund units outstanding – Basic	8,376	8,376
Net earnings for the period – Diluted	45,896	6,019
Weighted average number of Class A GP Units	1,291	1,972
Weighted average number of Fund units outstanding – Diluted	9,667	10,347
Diluted earnings per Fund unit	$4.75	$0.58

Both Fiscal 2022 and Fiscal 2021 include the Class A GP Units in the calculation of diluted earnings per Fund Unit since the conversions were dilutive.

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

(3) Under IFRS 9, adopted on January 1, 2018, the SIR Loan will be recognized at fair value with changes in fair value being recorded in the consolidated statement of earnings.

Summary of Quarterly Financial Information

(in thousands of dollars or units, except restaurants and per unit amounts) (audited)	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Royalty Pooled Restaurants	51	51	51	51	56	56	56	56
Pooled Revenue generated by SIR	64,866	68,667	68,009	39,137	47,495	53,529	20,381	15,532
Royalty income to Partnership - 6% of Pooled Revenue	3,892	4,120	4,081	2,348	2,849	3,212	1,223	932
Other Income	-	-	-	-	-	-	68	-
Total Royalty and Other income to Partnership	3,892	4,120	4,081	2,348	2,849	3,212	1,291	932
Partnership other income	6	6	6	6	6	6	6	6
(Impairment) recovery of financial and intangible assets	(31)	(32)	55,289	747	133	-	203	(237)
Partnership expenses	(34)	(33)	(45)	(18)	3	(86)	(52)	(37)
Partnership earnings	3,833	4,061	59,331	3,083	2,991	3,132	1,448	664
SIR's interest (Class A, B and C GP Units)	(1,238)	(1,275)	(1,383)	(1,141)	(1,359)	(1,460)	(950)	(750)
SIR's interest (recovery) impairment of intangible and financial assets	-	-	(54,435)	-	-	-	-	-
Partnership income (loss) allocated to Fund[(2)]	2,595	2,786	3,513	1,942	1,632	1,672	498	(86)
Recovery (impairment) of financial and intangible assets	-	-	29,646	420	560	-	(200)	(300)
Other Income	-	-	12	37	75	273	-	-
Change in estimated fair value of the SIR Loan	6,750	1,750	-	(500)	750	750	1,500	-
	9,345	4,536	33,171	1,899	3,017	2,695	1,798	(386)
General & administrative expenses	(177)	(130)	(161)	(157)	(95)	(107)	(272)	(95)
Net earnings (loss) before income taxes of the Fund	9,168	4,406	33,010	1,742	2,922	2,588	1,526	(481)
Income tax (expense) recovery	(1,367)	(298)	(1,566)	(687)	(620)	(389)	(294)	(341)
Net earnings (loss) for the period	7,801	4,108	31,444	1,055	2,302	2,199	1,232	(822)
Basic earnings (loss) per Fund unit	$0.93	$0.49	$3.75	$0.13	$0.27	$0.26	$0.15	($0.10)
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Net earnings (loss) for the period – Diluted	8,157	4,492	31,906	1,055	2,747	2,717	1,377	(822)
Weighted average number of Class A GP Units	1,291	1,291	1,291	N/A	1,971	N/A	1,971	N/A
Weighted average number of Fund units outstanding – Diluted	9,667	9,667	9,667	N/A	10,347	N/A	10,347	N/A
Diluted earnings (loss) per Fund unit	$0.84	$0.46	$3.30	$0.13	$0.27	$0.26	$0.13	($0.10)

Distributable Cash[(1)]

Distributable cash represents the amount of money which the Fund expects to have available for distribution to Unitholders of the Fund, and is calculated as cash provided by operating activities of the Fund, adjusted for the net change in non-cash working capital items including a reserve for income taxes payable, and the net change in the distribution receivable from the Partnership.

Distributable Cash[(1)]

(in thousands of dollars or units, except per unit amounts and payout ratio[(1)])	**Three-month period ended December 31, 2022**	**Three-month period ended December 31, 2021**	**12-month period ended December 31, 2022**	**12-month period ended December 31, 2021**
Cash provided by operating activities	3,259	3,430	11,583	6,300
Add/(deduct):				
Net change in non-cash working capital items[(4)]	1,322	191	891	79
Net change in income tax payable[(4)]	(931)	(48)	(968)	(1,131)
Net change in distribution receivable from the Partnership[(4)]	(1,849)	(784)	(22)	(218)
Distributable cash[(1)]	**1,801**	**2,789**	**11,484**	**5,030**
Cash distributed for the period	**2,806**	**3,099**	**10,721**	**5,025**
(Shortfall)/surplus of distributable cash[(1)]	**(1,005)**	**(310)**	**763**	**5**
Payout ratio[(1), (5)]	155.8%	111.1%	93.4%	99.9%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376
Distributable cash[(1)] per Fund unit – Basic	$0.22	$0.33	$1.37	$0.60
Distributable cash[(1)] for the period – Diluted[(6)]	2,180	3,234	12,994	6,138
Weighted average number of Class A GP Units	N/A	1,972	1,291	1,972
Weighted average number of Fund units outstanding – Diluted	N/A	10,347	9,667	10,347
Distributable cash[(1)] per Fund unit – Diluted	$0.22	$0.31	$1.34	$0.59

(4) Distributable cash is adjusted to exclude the net change in non-cash working capital items, the net change in income tax payable, and the net change in the distribution receivable from the Partnership, as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments.

(5) It is the Fund's intention to pay even distributions to reduce the effect of seasonality. Higher payout ratios during the colder months of the year are expected with the pattern of seasonality in SIR's business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.

(6) Diluted distributable cash per Fund unit is as follows: Distributable cash for the period, plus the distributions, net of income tax expense (recovery), related to the Class A GP Units, divided by the weighted average number of Fund units outstanding. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding (basic) plus the weighted average number of convertible Class A GP Units.

Summary of Quarterly Distributable Cash[(1)] *(in thousands of dollars or units, except per unit amounts and payout ratio[(1)])*	**Three-month periods ended**							
	December 31, 2022	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Cash provided (used) by operating activities	3,259	4,179	2,657	1,488	3,430	2,620	250	-
Add/(deduct): Net change in non-cash working capital items[(7)]	1,322	(130)	(166)	(135)	191	(255)	(272)	(95)
Net change in income tax payable[(7)]	(931)	137	(1,130)	957	(48)	(479)	(295)	(312)
Net change in distribution receivable from the Partnership[(7)]	(1,849)	(1,078)	2,238	666	(784)	152	498	(86)
Distributable cash/(shortfall)[(1)]	**1,801**	**3,108**	**3,599**	**2,976**	**2,789**	**2,038**	**181**	**(493)**
Cash distributed for the period	**2,806**	**3,392**	**2,261**	**2,261**	**3,099**	**1,926**	**-**	**-**
(Shortfall)/surplus of distributable cash[(1)]	**(1,005)**	**(284)**	**1,338**	**715**	**(310)**	**112**	**181**	**(493)**
Payout ratio[(1),(8)]	155.8%	109.1%	62.8%	76.0%	111.1%	94.5%	0.00%	0.00%
Weighted average number of Fund units outstanding – Basic	8,376	8,376	8,376	8,376	8,376	8,376	8,376	8,376
Distributable cash/(shortfall)[(1)] per Fund unit – Basic	$0.22	$0.37	$0.43	$0.36	$0.33	$0.24	$0.02	($0.06)
Distributable cash/(shortfall)[(1)] for the period – Diluted[(9)]	2,180	3,492	4,060	3,262	3,234	2,635	181	(493)
Weighted average number of Class A GP Units	N/A	1,291	1,291	1,291	1,972	N/A	N/A	N/A
Weighted average number of Fund units outstanding – Diluted	N/A	9,667	9,667	9,667	10,347	N/A	N/A	N/A
Distributable cash/(shortfall)[(1)] per Fund unit – Diluted[(9)]	$0.22	$0.36	$0.42	$0.34	$0.31	$0.24	$0.02	($0.06)

The payout ratio[(1)] of cash distributed to distributable cash[(1)] for Q4 2022 was 155.8% compared to 111.1% in Q4 2021. The 155.8% payout ratio[(1)] for Q4 2022 is the result of the year-over-year increase in cash distributed relative to distributable cash generated, in addition to the special cash distribution of $0.05 that was declared and paid in December 2022.

The payout ratio[(1)] of cash distributed to distributable cash[(1)] is intended to average 100% per annum over the long term. Since the Fund pays even monthly distributions when its underlying cash flow from the Partnership is subject to seasonal fluctuations (as experienced by SIR), there are times during the year when the payout ratio[(1)] may exceed or could be lower than 100%. For example, the first quarter typically has lower sales volumes than the second and third quarters which include warmer summer months when patios are open.

(7) Distributable cash is adjusted to exclude the net change in non-cash working capital items, the net change in income tax payable, and the net change in the distribution receivable from the Partnership, as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments.

(8) It is the Fund's intention to pay even distributions to reduce the effect of seasonality. Higher payout ratios during the colder months of the year are expected with the pattern of seasonality in SIR's business, and it is anticipated that the payout ratio will decrease on average during the warm weather months.

(9) Diluted distributable cash per Fund unit is as follows: Distributable cash for the period, plus the distributions, net of income tax expense (recovery), related to the Class A GP Units, divided by the weighted average number of Fund units outstanding. The weighted average number of Fund units outstanding represents the weighted average number of Fund units outstanding (basic) plus the weighted average number of convertible Class A GP Units.

A history of distributions is as follows:

Months Paid	Distribution per Unit
Inception to May 2006	$0.100
June 2006 to May 2007	$0.105
June 2007 to May 2008	$0.110
June 2008 to January 2011	$0.115
February 2011 to May 2012	$0.083[10]
June 2012 to May 2013	$0.088
June 2013 to March 2018	$0.095
April 2018 to August 2018	$0.100
September 2018 to October 2019	$0.105
November 2019 to February 2020	$0.0875
March 2020 to June 2021	Nil
July 2021 to August 2021	$0.070
September 2021 to September 2022	$0.090
December 2012 Special Distribution	$0.050[11]
December 2017 Special Distribution	$0.020[11]
December 2021 Special Distribution	$0.100[11]
July 2022 Special Distribution	$0.135[11]
December 2022 Special Distribution	$0.050[11]
October 2022 to date	$0.095

Since the Fund's inception in October 2004 up to and including Q4 2022, the Fund has generated $136.2 million in cumulative distributable cash[1] and has paid cumulative cash distributions of $136.2 million, representing a cumulative payout ratio[1] (the ratio of cumulative cash distributions paid since inception to cumulative distributable cash[1] generated) of 100.0%.

(10) As a result of certain legislative changes to the tax treatment of income trusts, corporate income taxes became applicable to the taxable income of the Fund effective January 1, 2011. Accordingly, the distributions, starting with the January 2011 distribution (declared and paid in February 2011), were reduced for the impact of income taxes.

(11) The special year-end distributions of: $0.05 per unit declared in December 2012 (paid in January 2013), $0.02 per unit declared (paid in December 2017), $0.10 per unit declared in December 2021 (paid in December 2021), $0.135 per unit declared in July 2022 (paid in July 2022) and $0.05 per unit declared in December 2022 (paid in December 2022) were declared because additional distributable cash was available and approved by the Trustees of the Fund to be distributed.

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

(in thousands of dollars)	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Cash provided by operating activities	11,583	6,300
Net earnings for the period	44,409	4,910
Cash distributed for the period	10,721	5,025
Excess of cash provided by operating activities over cash distributed for the period[12]	**862**	**1,275**
Surplus/(shortfall) of net earnings for the period over cash distributed for the period[13]	**33,688**	**(115)**

The $33.7 million excess of net earnings over cash distributed for the year ended December 31, 2022 is primarily attributable to a $30.1 million recovery of previous impairments on the Fund's investment in the Partnership and other financial assets, an $8.0 million increase in the fair value of the SIR Loan due a reduction in management's assessment of SIR's specific risk, and an increase in net earnings for the year.

Balance Sheet

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

(in thousands of dollars) (audited)	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Total assets	83,221	78,642	77,951	47,498	49,481	50,649	49,824	48,045
Unitholders' equity	76,274	71,279	70,562	41,380	42,585	43,118	43,110	41,878

Results of Operations - Fund

The Fund's income for Q4 2022 is comprised of equity income from the Partnership of $2.6 million (Q4 2021 - equity income of $1.6 million) and a $6.8 million increase in the estimated fair value of the SIR Loan (Q4 2021 – increase in the estimated fair value of the SIR Loan of $0.8 million).

The Fund's income for Fiscal 2022 is comprised of equity income from the Partnership of $10.8 million (Fiscal 2021 – $3.7 million), a reversal of previous impairments on the investment in the Partnership and financial assets of $30.1 million (Fiscal 2021 – recovery of $0.1 million), other income of $0.05 million (Fiscal 2021 - $0.3 million), and an increase in the estimated fair value of the SIR Loan of $8.0 million (Fiscal 2021 – increase of $3.0 million).

Equity income from the Partnership is the pro rata share of the residual distributions of the Partnership for the three and twelve-month periods ended December 31, 2022 and December 31, 2021. Full reversal of previous impairments to the investment in the SIR Rights was recorded in Q2 2022 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.

The change in estimated fair value of the SIR Loan of $6.8 million and $8.0 million for the three and twelve-month periods ended December 31, 2022, respectively, is related to IFRS 9, which requires the Fund to recognize the SIR Loan at fair value, with changes in the fair value being recorded in the statement of earnings.

The Fund's operating expenses, which are limited to general and administrative expenses, totaled $0.2 million and $0.6 million for Q4 2022 and Fiscal 2022, respectively ($0.1 million and $0.6 million for Q4 2021 and Fiscal 2021,

(12) (Shortfall) excess of cash provided by operating activities over cash distributed for the period is calculated by subtracting the cash distributed for the period from cash provided by operating activities

(13) (Shortfall) excess of net earnings for the period over cash distributed for the period is calculated by subtracting cash distributed for the period from net earnings for the period.

respectively). These expenses include professional fees, directors' and officers' liability insurance premiums, Trustees' fees, certain public company costs and other administrative fees.

The Fund recorded an income tax expense of $1.4 million and $3.9 million for Q4 2022 and Fiscal 2022, respectively ($0.6 million and $1.6 million for Q4 2021 and Fiscal 2021).

Net earnings were $7.8 million for Q4 2022 (Q4 2021 – $2.3 million). Net earnings per Fund unit for Q4 2022 were $0.93 (basic) and $0.84 (diluted) (Q4 2021 - $0.27 (basic) and $0.27 (diluted)).

Net earnings were $44.4 million for Fiscal 2022 (Fiscal 2021 – $4.9 million). Net earnings per Fund unit for Fiscal 2022 were $5.30 (basic) and $4.75 (diluted), compared to Net earnings per Fund unit for Fiscal 2021 of $0.59 (basic) and $0.58 (diluted).

Pooled Revenue

The Fund is indirectly dependent on the amount of the Royalty paid by SIR to the Partnership. The amount of this Royalty is dependent on Pooled Revenue. Pooled Revenue is the revenue of the SIR Restaurants included in Royalty Pooled Restaurants. As at December 31, 2022, there were 51 restaurants included in Royalty Pooled Restaurants. Increases or decreases in Pooled Revenue are derived from SSS[(1)] growth or declines, and new or permanently closed SIR Restaurants subject to the SIR Rights. Pooled Revenue is affected by the risks associated with the operations and financial condition of SIR, the commercial foodservice industry generally and the casual and fine dining segment of the commercial foodservice industry in particular.

The following table sets out Pooled Revenue for the three-month and twelve-month periods ended December 31, 2022 and December 31, 2021:

Summary of Pooled Revenue

(in thousands of dollars except number of restaurants included in Pooled Revenue)	Three-month period ended December 31, 2022		Three-month period ended December 31, 2021		Twelve-month period ended December 31, 2022		Twelve-month period ended December 31, 2021	
	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue	Pooled Revenue	Restaurants included in Pooled Revenue
Jack Astor's	47,230	37	34,532	37	179,747	37	104,713	38
Scaddabush	12,803	9	9,672	10	45,580	9	26,966	9
Canyon Creek	-	2	523	5	659	2	1,029	5
Signature	4,833	3	2,768	4	14,693	3	4,229	4
Total included in Pooled Revenue	64,866	51	47,495	56	240,679	51	136,937	56

The increases in Pooled Revenue in Q4 2022 and Fiscal 2022 are due to SSS[(1)] growth reflecting the gradual easing of pandemic-related operating restrictions across all provinces in which SIR operates during Q1 2022. As of mid-March 2022, all of the operating restrictions in each of the provinces where SIR operates were lifted.

During Fiscal 2022, the Renegade Chicken trial earned revenues of $1.2 million, which are included in Pooled Revenue. In accordance with the trial (refer to page 6 for details), SIR paid 6% of these revenues earned by Renegade Chicken to the Partnership, totaling $0.1 million. During Fiscal 2021, the Renegade Chicken trial revenues were excluded from Pooled Revenue and the voluntary payment of $0.1 million paid to the Partnership was classified as other income.

Liquidity and Capital Resources

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

The Credit Agreement between SIR and the Lender, as amended on December 8, 2017, July 6, 2018, June 1, 2020, June 30, 2020, September 30, 2020, December 18, 2020, March 31, 2021, May 31, 2021 and June 16, 2022, provides for a maximum principal amount of $45.0 million consisting of:

- a $20.0 million revolving term credit facility (Credit Facility 1),
- a $13.0 million revolving term loan (Credit Facility 2),
- a $6.25 million guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (the "EDC-Guaranteed Facility"), and
- a $5.8 million 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 $1.5 million.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%, with principal to be repaid in one bullet repayment on July 6, 2023. A standby fee of 0.85% is charged on the undrawn balance of this facility. Provided the Company is in compliance with the Credit Agreement, the principal amount of Credit Facility 1 can be repaid and reborrowed at any time during the term of the Credit Agreement.

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

The EDC-Guaranteed Facility bears interest at the prime rate plus 3.50%. 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 beyond the current expiration date of July 6, 2023. 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. The moratorium has elapsed and SIR has commenced repayment on 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.

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 will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan without triggering a cross default under the Credit Agreement, by up to 50% for a period of up to nine consecutive months. SIR and each Obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the Subordinating Parties not demanding repayment or enforcing security as a result of any such Related Party Obligation Default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership. For greater certainty, the preemptive deferral arrangements described above, were not used in the deferral agreements between SIR, the Fund and the Partnership deferring royalty payments and interest payments on the SIR loan between April 1, 2020 and July 6, 2022, described below, as those breaches could not be avoided by a simple preemptive deferral by the Partnership and the Fund.

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

Starting in April of 2020, the Fund and the Partnership granted SIR deferrals of interest on a loan owing by SIR to the Fund (the "SIR Loan") and royalty payments owing by SIR to the Partnership through a series of short-term deferral agreements, the latest of which was set to expire on July 6, 2022. These deferral agreements were conditions required by SIR's senior lender for a series of waiver and amending agreements that it granted to SIR. The final scheduled deferral payments for deferred interest and royalties were made by SIR on June 15, 2022, thus, enabling SIR to extinguish all liabilities related to these payments. In the absence of these waiver and amending agreements from SIR's senior lender, as a result of the impact of the pandemic on SIR's sales and financial results, SIR would have breached a number of financial and non-financial covenants and events of default under its credit agreement. The Fund and the Partnership have security interests over the assets of SIR, but these security interests are subordinated and postponed to those of SIR's senior lender. The ongoing cooperation and support of SIR's senior lender has been necessary and will in SIR's view continue to be necessary in order for SIR to retain sufficient liquidity to operate. The Partnership's and the Fund's cooperation in the form of deferrals on royalties and on interest on the SIR Loan, as well as waivers of certain covenants and events of default, have been requirements for SIR to obtain the needed funding, waivers and deferrals that have been granted to it by its senior lender. Failure to obtain them 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. Additionally, the waiver and extension agreements approved by the Fund and the Partnership on June 30, 2020 enabled SIR to add $6.25 million in much needed liquidity through the addition of the EDC-Guaranteed Facility, to which the Fund and Partnership are also subordinated. Further, the waiver and extension agreements approved by the Fund and the Partnership on March 31, 2021 enabled SIR to add $6.25 million in much needed liquidity through the addition of the BDC-Guaranteed Facility, to which the Fund and Partnership are also subordinated. Accordingly, each of the deferral agreements was approved by the independent Trustees of the Fund. The deferral agreements and related documents have also been filed on SEDAR.

For more details regarding the summary statements on covenant breaches and credit amendments that have occurred since the onset of the pandemic up until June 30, 2022 , please refer to the Fund's and SIR's prior interim filings, which can be found on SEDAR at www.sedar.com under the Fund's profile.

On June 16, 2022, SIR and its Lender entered into the 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 of 12 months.

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 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 the Company.

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.

The Third, Fourth, Fifth, Sixth, Seventh, Eighth and Ninth Amending Agreements are filed on SEDAR.

The Fund did not have any capital expenditures in Q4 2022 and Fiscal 2022 and by its nature is not expected to have significant capital expenditures in the future. Capital expenditures related to Royalty Pooled Restaurants are borne at the operating company (SIR) level. The Fund's operating and administrative expenses are expected to be stable and predictable and are considered to be in the ordinary course of business.

During Q4 2022, SIR has continued to pay current royalties and interest on the SIR Loan to the Fund (refer to the "Amendments to SIR's Credit Agreement, payment of royalties and interest on the SIR Loan" section on page 4).

While SIR is not owned by the Fund, the Fund's cash flows are derived from interest received on the SIR Loan and distributions from the Partnership and accordingly, the Fund is economically dependent upon SIR. Credit risk arises from the potential default of SIR on the SIR Loan. Management monitors the SIR Loan for credit risk and to date all interest payments have been made. The Fund also depends on the distributions from the Partnership, which are dependent upon SIR paying the Royalty to the Partnership. Information regarding SIR and its liquidity can be found in SIR's unaudited condensed interim and audited annual consolidated financial statements and MD&A, which can be found on SEDAR under the Fund's listing named "Other". The most recent unaudited condensed interim consolidated financial statements and MD&A for SIR's first quarter are listed with a filing date of December 21, 2022.

The following table is an excerpt of the previous eight quarters of SIR's consolidated statement of cash flows information:

Selected Unaudited Consolidated Statement of Cash Flows Information(14)	1st Quarter Ended November 20, 2022 (12 weeks)	4th Quarter Ended August 28, 2022 (16 weeks)	3rd Quarter Ended May 8, 2022 (12 weeks)	2nd Quarter Ended February 13, 2022 (12 weeks)	1st Quarter Ended November 21, 2021 (12 weeks)	4th Quarter Ended August 29, 2021 (16 weeks)	3rd Quarter Ended May 9, 2021 (12 weeks)	2nd Quarter Ended February 14, 2021 (12 weeks)
				(in thousands of dollars) (audited)				
Cash (used in) provided by operations	3,987	18,099	22,724	(4,741)	2,853	19,076	8,136	527
Cash used in investing activities	(1,352)	(2,755)	(1,067)	(1,195)	(801)	(602)	(81)	(142)
Cash (used in) provided by financing activities	(6,350)	(10,316)	(20,252)	5,368	(9,391)	(9,435)	(12,873)	2,232
Increase (decrease) in cash and cash equivalents during the period	(3,715)	5,028	1,405	(568)	(7,339)	9,039	(4,818)	2,617
Cash and cash equivalents – Beginning of period	8,132	3,104	1,699	2,267	9,606	567	5,385	2,768
Cash and cash equivalents – End of period	4,417	8,132	3,104	1,699	2,267	9,606	567	5,385

Controls and Procedures

Disclosure controls and procedures:

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Management carried out an evaluation of the effectiveness of the design and operation of the Fund's disclosure controls and procedures, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2022 under the supervision of and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer.

Based on that evaluation, the Fund's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective as at December 31, 2022.

Internal controls over financial reporting:

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

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

(14) Information presented is in accordance with IFRS and is derived solely from documents filed with the Canadian securities regulatory authorities by SIR in its interim Q3 2022 MD&A filed on June 22, 2022 and has not been approved by the Fund or its Trustees, officers, SIR GP Inc., or SIR Holdings Trust, or their respective Trustees, managing general partners, directors, or officers.

Management carried out an evaluation of the effectiveness of the design and operation of the Fund's internal controls over financial reporting, as defined in National Instrument 52-109, "Certification of Disclosure in Issuer's Annual and Interim Filings", as at December 31, 2022 and under the supervision and with the participation of the Fund's Chief Executive Officer and Chief Financial Officer. The evaluation was conducted using the framework and criteria established in Internal Control - Integrated Framework: 2013, issued by the Committee of Sponsoring Organizations of the Treadway Commission in May 2013.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that internal controls over financial reporting are effective and there are no material weaknesses in the Fund's internal controls over financial reporting as at December 31, 2022. There have been no substantive changes in the Fund's internal controls over financial reporting that occurred during the most recent interim period beginning October 1, 2022 through to December 31, 2022, that have materially affected, or are reasonably likely to materially affect the Fund's internal control over financial reporting. The Fund does not own, control or consolidate SIR and therefore, the Fund's disclosure controls and procedures and the internal controls over financial reporting do not encompass SIR or SIR's disclosure controls and procedures or SIR's internal controls over financial reporting.

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

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the three-month period December 31, 2022, the Fund earned equity income of $2.6 million from the Partnership (equity income of $1.6 million for the three-month period ended December 31, 2021) and recorded equity income of $10.8 million from the Partnership for the twelve-month period ended December 31, 2022 ($3.7 million for the twelve-month period ended December 31, 2021). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. The Fund's equity income is dependent upon the revenue generated by the SIR Restaurants subject to the License and Royalty Agreement.

During the three-month and twelve-month periods ended December 31, 2022 , the Fund recognized $0.8 million and $3.0 million, respectively, of interest payments towards the value of the SIR Loan ($0.8 million and $3.0 million, respectively, for the three-month and twelve-month periods ended December 31, 2021). For the three-month and twelve-month periods ended December 31, 2022, the Fund received interest payments of $0.8 and $3.0 million from the SIR Loan ($1.8 and $3.2 million for the three-month and twelve-month periods ended December 31, 2021). A description of the terms of the SIR Loan is included in the notes to the consolidated financial statements of the Fund for the twelve-month period ended December 31, 2022.

As at December 31, 2022, the Fund had amounts receivable from SIR of $0.3 million (December 31, 2021 - $1.5 million) and distributions receivable from the Partnership of $2.9 million (December 31, 2021 - $2.9 million). As at December 31, 2022, the Fund had advances payable to the Partnership of $2.7 million (December 31, 2021 - $3.7 million). All advances were conducted as part of the normal course of business operations.

Critical Accounting Estimates

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

Investment in the Partnership/Consolidation of Structured Entities

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

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

Valuation of the SIR Loan and Investment in the Partnership

Management reviews for objective evidence whether there may be an impairment of the SIR Loan or the investment in the Partnership. The review includes a review of the earnings, cash flows and available cash of SIR on a prospective basis to assess SIR's ability to meet its obligations to the Fund for interest payments on the SIR Loan and to the Partnership for the Royalty. Based on the analysis completed during the year ended December 31, 2022, no impairments to the SIR Loan and the Investment in the Partnership have been recorded in the consolidated financial statements (December 31, 2021 - $nil).

The SIR Loan is now accounted for at fair value through the statement of earnings which requires management to discount the cash flows using a market interest rate. Management has estimated the discount rate by considering comparable corporate bond rates, risk-free rates and SIR's credit risk.

During Q4 2022, management adjusted the discount rate from 14.45% at December 31, 2021 to 11.75% at December 31, 2022. The adjustment consists of an estimated increase in the corporate bond rate of 0.47% combined with an increase of 1.34% in the Canadian risk-free rate. This was offset by a decrease of 4.51% in the SIR specific risk.

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 $0.6 million decrease or increase in the fair value of the SIR Loan.

Financial Instruments

The Fund's financial instruments consist of cash, amounts due from related parties, the SIR Loan, accounts payable and accrued liabilities, and amounts due to related parties. Management estimates that the fair values of these financial instruments approximate their carrying values due to their short-term maturity except for the SIR Loan. The fair value of the SIR Loan is estimated to be $26.7 million. The fair value was estimated by discounting the expected cash flows using a current market interest rate adjusted for SIR's credit risk. The estimate of fair value is within level 3 of the fair value hierarchy.

Disclosure of Outstanding Unit Data

As at December 31, 2022, the number of outstanding units of the Fund was 8,375,567.

Risks and Uncertainties

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

In addition, factors such as business and economic conditions, changes in foreign exchange, availability of credit, inflation, increased food, labour and benefits costs, taxes, government regulations (including those governing alcoholic beverages and cannabis legalization), weather, seasonality, public safety issues and the availability and quality of food, services and products sold in the restaurants, and growth in off-premise traffic due to an increase in delivery and takeout orders affect the restaurant industry in general and therefore SIR. There are many well-established competitors with greater financial and other resources than SIR. Competitors include national and regional chains, as well as individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual and fine dining sectors in which many of the SIR Restaurants operate. Some of SIR's competitors have been in existence for a substantially longer period than SIR and may be better established in the markets where SIR Restaurants are or may be located. If SIR is unable to successfully compete in the casual and fine dining sectors of the restaurant industry, Pooled Revenue may be adversely affected, the amount of the Royalty reduced and the ability of SIR to pay the Royalty or interest on the SIR Loan may be impaired. Please refer to the March 31, 2022 Annual Information Form for further discussion on risks and uncertainties related to the Fund and SIR.

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

Outlook

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

SIR continues to monitor consumer spending behavior with the absence of pandemic-related operating restrictions and current evolving macroeconomic factors, including inflation and higher interest rates, and their potential impact on the Canadian economy and consumer confidence. Ongoing business impacts due to changes in the minimum wage, rising commodity costs and supply shortages have all been influential in the bar and restaurant industry's changes in pricing overall. To combat these challenges, SIR continues to innovate and provide immersive new product and service offerings to increase dine-in guest visits to its restaurants and to capitalize on the rapid growth of take-out and delivery services in commercial foodservice.

In consideration of the ongoing conditions mentioned above, SIR continues to invest in new restaurant developments and renovations to existing restaurants where appropriate and subject to availability of acceptable long-term financing. Based on its assessment of these conditions and the timing of new restaurant construction and renovations, the related opening schedules will be reviewed regularly by SIR and adjusted as necessary.

As at the date of this report, SIR has one commitment to lease a property in Whitby, Ontario, upon which it plans to build a new Scaddabush restaurant. There can be no assurance that the new Scaddabush restaurant will be opened or will become part of Royalty Pooled Restaurants.

The Reds Kitchen + Wine Bar Fallsview, opened on March 31, 2022, and was added to the Royalty Pooled Restaurants effective January 1, 2023.

The Scaddabush restaurant in Etobicoke, Ontario opened on August 1, 2022 and was added to the Royalty Pooled Restaurants effective January 1, 2023.

SIR completed renovations to five Jack Astor's locations during Fiscal 2022 to help drive enhanced performance for these locations. SIR plans to invest in similar restaurant renovations throughout Fiscal 2023.

SIR's insurer has denied any business interruption claims due to COVID-19 related operating restrictions or closures. However, SIR continues to pursue a Business Interruption claim due to Civil Authority orders against its insurer by way of Notice of Application in the Ontario Superior Court which was heard on May 19, 2021, June 2, 2021, November 25, 2021, December 8, 2021 and May 9, 2022. This claim includes a rider provision to SIR's property policy which is in favour of the Fund and covers income reduction for lost royalties for a maximum of 180 days. Subsequent to year end, the application was dismissed by the courts. Following an internal review, SIR filed an appeal on January 19, 2023.

Description of Non-IFRS measures

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

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

<u>Same Store Sales and Same Store Sales Growth</u>

The Fund believes that Same Store Sales ("SSS") and Same Store Sales Growth ("SSSG") are useful measures and provide investors with an indication of the change in year-over-year sales. SSS includes revenue from all SIR Restaurants included in Pooled Revenue for the fiscal years 2022 and 2021, except for those locations that were not open for the entire comparable periods in fiscal 2022 and fiscal 2021. The seasonal Abbey's Bakehouse is not a SIR Restaurant. SSSG is the percentage increase in SSS over the prior comparable period. When a SIR Restaurant is closed, the revenue for the closed restaurant is excluded from the calculation of SSS and SSSG for both the quarter in which the restaurant is closed and the current year-to-date.

<u>Distributable Cash and Payout Ratio</u>

The Fund believes that distributable cash and the payout ratio are useful measures as they provide investors with an indication of cash available for distribution. Investors are cautioned that distributable cash and the payout ratio should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund. The payout ratio is calculated as cash distributed for the period as a percentage of the distributable cash for the period. Distributable cash represents the amount of money which the Fund expects to have available for distribution to Unitholders of the Fund, and is calculated as cash provided by operating activities of the Fund, adjusted for the net change in non-cash working capital items including a reserve for income taxes payable and the net change in the distribution receivable from the Partnership.

Forward-Looking Information

Certain statements contained in this report, or incorporated herein by reference, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements concerning the objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and the business, operations, financial performance and condition of the Fund, the SIR Holdings Trust (the "Trust"), the Partnership, SIR, the SIR Restaurants or industry results, are forward-looking statements. The words "may", "will", "should", "would", 'could", "expect", "believe", "plan", "anticipate", "intend", "estimate" and other similar terminology and the negative of such expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants or industry results, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. These statements reflect Management's current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this document. Readers should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Risks related to forward-looking statements include, among other things, challenges presented by a number of factors, including: the impact of the COVID-19 pandemic; market conditions at the time of this filing; competition; changes in demographic trends; weather; changing consumer preferences and discretionary spending patterns; changes in consumer confidence; changes in national and local business and economic conditions; pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products; the ability to maintain staffing levels; the impact of inflation, including on input prices and wages; the impact of the crisis in the Ukraine; changes in tariffs and international trade; changes in foreign exchange and interest rates; changes in availability of credit; legal proceedings and challenges to intellectual property rights; dependence of the Fund on the financial condition of SIR; legislation and governmental regulation, including the cost and/or availability of labour as it relates to changes in minimum wage rates or other changes to labour legislation and forced closures of or other limits placed on restaurants and bars; laws affecting the sale and use of alcohol (including availability and enforcement); changes in cannabis laws; changes in environmental laws; privacy matters; accounting policies and practices; changes in tax laws; and the results of operations and financial condition of SIR. The foregoing list of factors is not exhaustive. Many of these issues can affect the Fund's or SIR's actual results and could cause their actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Fund or SIR. There can be no assurance that SIR will remain compliant in the future with all of its financial covenants under the Credit Agreement and imposed by the lender. Given these uncertainties, readers are cautioned that forward-looking statements are not guarantees of future performance and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly disclose or release any updates or revisions to any forward-looking statements. Forward-looking statements are based on Management's current plans, estimates, projections, beliefs and opinions, and the Fund and SIR do not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change, except as expressly required by applicable securities laws. This Management's Discussion and Analysis is provided as of March 16, 2023

In formulating the forward-looking statements contained herein, SIR Management has assumed that it will be successful in dealing with the effects of the COVID-19 pandemic and that business and economic conditions affecting SIR's restaurants and the Fund will return to normalcy within the short to medium term. For more information concerning risks and uncertainties, please refer to the Fund's March 16, 2023 Annual Information Form, for the period ended December 31, 2022, and the Fund's most recent interim filings, which are available under the Fund's profile at www.sedar.com.

All of the forward-looking statements made herein are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Fund or SIR. For more information concerning the Fund's risks and uncertainties, please refer to the Fund's Annual Information Form dated March 16, 2023 for the period ended December 31, 2022, which is available under the Fund's profile at www.sedar.com.

Additional information related to the Fund, the Partnership, and SIR can be found at www.sedar.com under SIR Royalty Income Fund and on SIR's website at www.sircorp.com

SIR Royalty Income Fund

Consolidated Financial Statements
December 31, 2022 and 2021

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, 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 Fund's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include 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.

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, 2022. 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.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment 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. 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 $50.98 million as at December 31, 2022.
 	
The Fund assesses the investment in the Partnership for impairment when there is objective evidence that the investment in the Partnership is impaired. Impairment is recognized when the recoverable amount of the investment in the Partnership is lower than the carrying value. An impairment loss is reversed if there is a reversal in circumstances that led to the impairment and if the recoverable amount increases to the extent that the related investment's carrying amount is no larger than the amount that would have been determined, had no impairment loss been recorded. The recoverable amount of the investment in the Partnership is based on the recoverable amount of the SIR Rights.
 	
The recoverable amount of the SIR Rights has been determined based on fair value less costs to sell (the method) using a five-year discounted cash flow of the underlying royalty income from the SIR Rights considering a terminal value (the models). The key assumptions applied by management related to the revenue growth rates and terminal
	Our approach to addressing the matter included the following procedures, among others:
	
	• Tested how management determined the recoverable amount of the investment in the Partnership, which included the following:
	
	  – Tested how management determined the recoverable amount of the SIR Rights, which included the following:
	    o Evaluated the appropriateness of the method used by management and tested the mathematical accuracy of the models.
	    o Tested the underlying data used in the models.
	    o Evaluated the reasonableness of the revenue growth rates and terminal growth rate of the revenues of the restaurants included in the Royalty Pooled Restaurants by (i) considering the historical results of the restaurants included in the Royalty Pooled Restaurants, management's budget and strategic plans and third party published industry and economic data and (ii) assessing whether these key assumptions were consistent with evidence obtained in other areas of the audit.
	    o Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the appropriateness of the models and the reasonableness of the discount rate used within the models.
	
	• Recalculated and compared the Fund's market capitalization to its net assets as at December 31, 2022.

Key audit matter	How our audit addressed the key audit matter
growth rate of the revenues of the restaurants included in the Royalty Pooled Restaurants and the discount rate. An impairment loss reversal of $29.1 million was recognized in the investment in the Partnership, as a result of an impairment loss reversal of $54.2 million in the Partnership on the SIR Rights. We considered this a key audit matter due to (i) the significance of the investment in the Partnership balance and (ii) the judgment made by management in determining the recoverable amount of the investment in the Partnership which is based on the recoverable amount of the SIR Rights and included the use of key assumptions. This has resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the key assumptions used by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	• Tested the disclosures made in the consolidated financial statements with regards to the investment in the Partnership and the SIR Rights.
Valuation of the loan receivable from SIR Corp. *Refer to note 4 – Critical accounting estimates and judgments, note 5 – Loan receivable from SIR Corp. (SIR) and note 7 – Financial instruments to the consolidated financial statements.* As at December 31, 2022, the fair value of the loan receivable from SIR (the SIR Loan) amounted to $26.75 million. The SIR Loan is accounted for at fair value through the consolidated statements of earnings and comprehensive 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 SIR loan model). The fair value of the SIR Loan is sensitive to changes in the discount rate.	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 SIR loan model used by management and tested the mathematical accuracy thereof. – Tested underlying data used in the SIR loan model. – With the assistance of professionals with specialized skill and knowledge in the field of valuation, assessed the reasonableness of the discount rate applied.

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to (i) the significance of the SIR Loan balance and (ii) the judgment made by management when determining the discount rate which is impacted by the credit risk of SIR. This resulted in a high degree of auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to the discount rate. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	• Tested the disclosures related to the sensitivity analysis made in the consolidated financial statements with regard to changes in the discount rate.

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 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 Peter Dalziel.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 16, 2023

SIR Royalty Income Fund

Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

	December 31, 2022 $	December 31, 2021 $
Assets		
Current assets		
Cash	2,275,320	1,413,130
Prepaid expenses and other assets	63,477	42,259
Amounts due from related parties (note 10)	3,147,804	4,416,969
	5,486,601	5,872,358
Loan receivable from SIR Corp. (note 5)	26,750,000	21,750,000
Investment in SIR Royalty Limited Partnership (note 6)	50,984,321	21,858,327
	83,220,922	49,480,685
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	190,178	131,472
Income tax payable	2,037,510	1,069,589
Amounts due to related parties (note 10)	2,660,633	3,675,995
	4,888,321	4,877,056
Deferred income taxes (note 14)	2,059,000	2,018,000
	6,947,321	6,895,056
Fund units (note 8)	96,169,787	96,169,787
Deficit	(19,896,186)	(53,584,158)
Total unitholders' equity	76,273,601	42,585,629
	83,220,922	49,480,685

(Signed) Stephen Dewis — Stephen Dewis, Director

(Signed) Norm Mayr — Norm Mayr, Director

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

SIR Royalty Income Fund

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2022 and 2021

	Year ended December 31, 2022 $	**Year ended December 31, 2021 $**
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	10,835,868	3,716,538
Recovery of Investment in SIR Royalty Limited Partnership and financial assets (notes 6 and 10)	30,065,994	60,000
Other income	49,283	347,570
Change in estimated fair value of the SIR Loan (note 5)	8,000,000	3,000,000
	48,951,145	7,124,108
General and administrative expenses (note 10)	625,441	568,919
Earnings before income taxes	48,325,704	6,555,189
Income tax expense (note 14)	3,917,006	1,644,870
Net earnings and comprehensive income for the year	44,408,698	4,910,319
Basic earnings per Fund unit (note 9)	$5.30	$0.59
Diluted earnings per Fund unit (note 9)	$4.75	$0.58

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

SIR Royalty Income Fund

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2022 and 2021

				Year ended December 31, 2022
	Number of Fund units	Amount $	Deficit $	Total $
Balance - Beginning of year	8,375,567	96,169,787	(53,584,158)	42,585,629
Net earnings for the year	-	-	44,408,698	44,408,698
Distributions declared and paid (note 8)	-	-	(10,720,726)	(10,720,726)
Balance - End of year	8,375,567	96,169,787	(19,896,186)	76,273,601

				Year ended December 31, 2021
	Number of Fund units	Amount $	Deficit $	Total $
Balance – Beginning of year	8,375,567	96,169,787	(53,469,134)	42,700,653
Net earnings for the year	-	-	4,910,319	4,910,319
Distributions declared and paid (note 8)	-	-	(5,025,343)	(5,025,343)
Balance – End of year	8,375,567	96,169,787	(53,584,158)	42,585,629

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, 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	44,408,698	4,910,319
Items not affecting cash		
Recovery of Investment in SIR Royalty Limited Partnership and financial assets (note 10)	(30,065,994)	(60,000)
Change in estimated fair value of the SIR Loan (note 5)	(8,000,000)	(3,000,000)
Current income taxes (note 14)	3,876,006	1,615,870
Deferred income taxes (note 14)	41,000	29,000
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	(10,835,868)	(3,716,538)
Distributions received from SIR Royalty Limited Partnership (note 10)	10,858,537	3,935,300
Interest received on SIR Loan (note 5)	3,000,000	1,750,000
Deferred interest received on SIR Loan (note 5)	2,100,000	1,400,000
Income taxes paid	(2,908,085)	(484,510)
Net change in non-cash working capital items (note 12)	(891,378)	(79,597)
	11,582,916	6,299,844
Financing activities		
Distributions paid to unitholders	(10,720,726)	(5,025,343)
Change in cash during the year	862,190	1,274,501
Cash - Beginning of year	1,413,130	138,629
Cash - End of year	2,275,320	1,413,130

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 condensed interim consolidated financial statements were approved by the Board of Trustees 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, 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 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 Fund prepares its consolidated 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 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 includes 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.

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.

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 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 and comprehensive income.

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 and comprehensive income. The recoverable amount of the Investment in the Partnership is based on the recoverable amount of the SIR Rights. The key assumptions applied by management related to the revenue growth rates and terminal growth rate of the revenues of the restaurants included in the Royalty Pooled Restaurants and the discount rate (see Note 6).

Earnings per Fund unit

Earnings per Fund unit are based on the weighted average number of Fund units outstanding during the year. 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 year.

Distributions

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

Income taxes

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

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

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

4 Critical accounting estimates and judgements

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. The SIR Loan is accounted for at fair value through the consolidated statement of earnings and comprehensive income which required management to discount the cash flows using the 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 $550,000 decrease or increase in the fair value of the SIR Loan.

5 Loan receivable from SIR Corp.

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Balance - Beginning of year	21,750,000	21,750,000
Interest received	(3,000,000)	(1,750,000)
Interest deferred	-	(1,250,000)
Change in estimated fair value of the SIR Loan	8,000,000	3,000,000
Balance - End of year	26,750,000	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 $3,000,000 was recognized during the year ended December 31, 2022 (December 31, 2021 - $1,750,000). Interest of $3,000,000 was received during the year ended December 31, 2022 (December 31, 2021 - $1,750,000). Interest of $250,000 is outstanding and receivable from SIR Corp. at December 31, 2022.

SIR has repaid all previously deferred interest on the SIR Loan to the Fund. The final scheduled deferral payment was made by SIR on June 15, 2022, enabling SIR to extinguish all liabilities related to these payments. Deferred interest of $2,100,000 was received during the year ended December 31, 2022 (December 31, 2021 - $1,400,000).

Pursuant to the SIR Loan agreement, interest owing on the SIR Loan is charged an additional penalty of 2.0% over and above the base interest of 7.5% per month, non-compounding (see note 10). Additional interest paid during the year ended December 31, 2022 was $58,028 (December 31, 2021 - $338,825).

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 11.75% as at December 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 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, 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 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 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.

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, 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:

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Balance - Beginning of year	21,858,327	21,858,327
Equity income	10,835,868	3,716,538
Distributions declared	(10,835,868)	(3,716,538)
Recovery of previous provision for impairment	29,125,994	-
Balance - End of year	50,984,321	21,858,327

The summarized financial information of the Partnership is as follows:

	As at December 31, 2022 $	As at December 31, 2021 $
Cash	115,125	40,684
Other current assets	4,356,157	6,836,832
Intangible assets	92,151,695	46,699,990
Total assets	96,622,977	53,577,506
Current liabilities and total liabilities	4,471,272	7,086,534
Partners’ Interest		
SIR Royalty Income Fund	35,616,956	6,490,962
SIR Corp.	56,534,749	40,000,010
Total partners’ interest	92,151,705	46,490,972

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Revenue	14,464,939	8,308,686
Net earnings and comprehensive income of the Partnership	70,307,661	8,235,425

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

	As at December 31, 2022 $	As at December 31, 2021 $
Investment in the Partnership	50,984,321	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	35,616,956	6,490,962

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

	Year ended December 31, 2022 $	Year ended December 31, 2021 $
Net earnings and comprehensive income of the Partnership	70,307,661	8,235,425
Recovery of impairment of financial assets	(209,028)	-
Recovery of impairment of intangible assets	(54,225,548)	-
	15,873,085	8,235,425
Priority income distributed to SIR Corp. (Class C GP and Class B GP units)	(3,000,012)	(3,000,012)
Residual earnings	12,873,073	5,235,413
SIR Corp.'s share	(2,037,205)	(1,518,875)
Equity income	10,835,868	3,716,538

The Partnership reviews the SIR Rights for impairment annually 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, 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 on the SIR Rights of $54,225,548, resulting in a recovery on the Fund's investment in the Partnership of $29,125,994.

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:

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%

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, 2022 $		As at December 31, 2021 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	2,897,804	2,897,804	2,920,472	2,920,472
Advances payable	(2,656,482)	(2,656,482)	(3,671,844)	(3,671,844)
Amounts due from (to) related parties	241,322	241,322	(751,372)	(751,372)
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	21,858,327	21,858,327
Total	51,225,643	51,225,643	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.

7 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	2,275,320	1,413,130
Amounts due from related parties	Financial assets at amortized cost	3,147,804	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	190,178	131,472
Amounts due to related parties	Financial liabilities at amortized cost	2,660,633	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 amount, is estimated to be $26,750,000 (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 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, 2022, management adjusted the discount rate from 14.45% at December 31, 2021 to 11.75% at December 31, 2022. The adjustment consists of an estimated increase in the corporate bond rate of 0.47% combined with an increase of 1.34% in the Canadian risk-free rate. This was offset by a decrease of 4.51% in the SIR specific risk.

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 $550,000 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, 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 year ended December 31, 2022, the Fund declared and paid distributions of $0.09 per unit for the months of January to September 30, 2022. An additional special cash distribution of $0.135 per Fund unit was also declared and paid out in July 2022. The distributions were increased to $0.095 per Fund unit in September 2022 and paid out for the months of October to December 2022. Another additional special cash distribution of $0.05 was declared and paid during the month of December 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.

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 year.

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

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

		Basic		Adjustment for conversion of Class A GP Units		Diluted
Net earnings for the year ended December 31, 2022	$	44,408,698	$	1,487,160	$	45,895,858
Net earnings per Fund unit for the year ended December 31, 2022	$	5.30			$	4.75
Weighted average number of Fund units outstanding for the year ended December 31, 2022		8,375,567		1,291,618		9,667,185
Net earnings for the year ended December 31, 2021	$	4,910,319	$	1,108,779	$	6,019,098
Net earnings per Fund unit for the year ended December 31, 2021	$	0.59			$	0.58
Weighted average number of Fund units outstanding for the year ended December 31, 2021		8,375,567		1,971,552		10,347,119

For both years ended December 31, 2022 and December 31, 2021, the conversion of Class A GP Units into Fund Units is dilutive. Therefore, the Class A GP Units are included in the calculation of diluted earnings per Fund unit.

10 Related party transactions and balances

During the year ended December 31, 2022, the Fund recorded equity income of $10,835,868 (year ended December 31, 2021 - equity income of $3,716,538) and received distributions of $10,858,537 (year ended December 31, 2021 - $3,935,300) 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.

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 extension 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.

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, 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).

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, 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 and has been recorded in general and administrative expenses.

Amounts due from (to) related parties consist of:

	As at December 31, 2022 $	As at December 31, 2021 $
Interest receivable from SIR Corp.	250,000	1,410,000
Advances receivable from SIR Corp.	-	86,495
Distributions receivable from SIR Royalty Limited Partnership	2,897,804	2,920,474
Amounts due from related parties	3,147,804	4,416,969
Advances payable to SIR Corp.	4,151	4,151
Advances payable to SIR Royalty Limited Partnership	2,656,482	3,671,844
Amounts due to related parties	2,660,633	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, SIR began its repayment of deferred interest on the SIR Loan commencing September 15, 2021, via the stipulated monthly installments of $350,000, and met the repayment date of July 6, 2022 with the final payment made on June 15, 2022. For the year ended December 31, 2022, the Fund recognized a cumulative impairment recovery on the interest receivable from SIR of $940,000 (December 31, 2021 - $60,000) based on the repayment of all outstanding deferred interest and the continuation of current interest payments during the year ended December 31, 2022.

Impairment recovery on interest and distributions receivable is presented within the consolidated statement of earnings and comprehensive income.

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $228,170 for the year ended December 31, 2022 (2021 - $140,925) 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, 2022 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, 2022 $	Year ended December 31, 2021 $
Prepaid expenses and other assets	(21,218)	4,103
Amounts due from related parties	86,495	(86,495)
Accounts payable and accrued liabilities	58,706	19,553
Amounts due to related parties	(1,015,361)	(16,758)
	(891,378)	(79,597)

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, 2022 $	Year ended December 31, 2021 $
Current	3,876,006	1,615,870
Deferred	41,000	29,000
	3,917,006	1,644,870

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 year ended December 31, 2022 (year ended December 31, 2021 – 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, 2022 $	Year ended December 31, 2021 $
Earnings before income taxes	48,325,704	6,555,189
Less: Recovery of impairment of intangible and financial assets	38,065,994	-
	10,259,710	6,555,189
Income tax provision at 53.53% (2021 – 53.53%)	5,492,023	3,508,993
Add (deduct):		
Change in deferred tax asset not recognized	2,173,318	(159,612)
Differences in tax rates	(3,830,970)	(1,676,628)
Other	82,635	(27,883)
	3,917,006	1,644,870

Deferred tax liabilities consist of the following:

	Investment in the Partnership $
Balance as at December 31, 2020	1,989,000
Charged to consolidated statements of earnings	29,000
Balance as at December 31, 2021	2,018,000
Charged to consolidated statement of earnings	41,000
Balance as at December 31, 2022	2,059,000