

SIR Royalty Income Fund

Condensed Interim Consolidated Financial Statements
(Unaudited)

**For the three-month and six-month periods ended
June 30, 2023 and June 30, 2022**

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

	June 30, 2023 \$	December 31, 2022 \$
Assets		
Current assets		
Cash	1,511,129	2,275,320
Prepaid expenses and other assets	44,443	63,477
Amounts due from related parties (note 8)	3,649,586	3,147,804
	<u>5,205,158</u>	<u>5,486,601</u>
Loan receivable from SIR Corp. (note 3)	26,750,000	26,750,000
Investment in SIR Royalty Limited Partnership (note 4)	50,984,321	50,984,321
	<u>82,939,479</u>	<u>83,220,922</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	116,854	190,178
Income tax payable	1,372,614	2,037,510
Amounts due to related parties (note 8)	2,990,623	2,660,633
	<u>4,480,091</u>	<u>4,888,321</u>
Deferred income taxes (note 11)	2,099,000	2,059,000
	<u>6,579,091</u>	<u>6,947,321</u>
Fund units (note 6)	96,169,787	96,169,787
Deficit	<u>(19,809,399)</u>	<u>(19,896,186)</u>
Total unitholders' equity (Note 6)	<u>76,360,388</u>	<u>76,273,601</u>
	<u>82,939,479</u>	<u>83,220,922</u>

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Earnings and Comprehensive Income

(Unaudited)

	Three-month period ended June 30, 2023 \$	Three-month period ended June 30, 2022 \$	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,958,887	3,513,392	5,499,547	5,455,198
Recovery of investment in SIR Royalty Limited Partnership and financial assets (notes 4 and 8)	-	29,645,994	-	30,065,994
Other income	-	12,389	-	49,283
Change in estimated fair value of the SIR Loan (note 3)	2,750,000	-	1,500,000	(500,000)
	5,708,887	33,171,775	6,999,547	35,070,475
General and administrative expenses (note 8)	176,112	161,678	312,984	318,707
Earnings before income taxes	5,532,775	33,010,097	6,686,563	34,751,768
Income tax expense (note 11)	972,320	1,565,802	1,825,703	2,252,058
Net earnings and comprehensive income for the period	4,560,455	31,444,295	4,860,860	32,499,710
Basic earnings per Fund unit (note 7)	\$0.54	\$3.75	\$0.58	\$3.88
Diluted earnings per Fund unit (note 7)	\$0.51	\$3.30	\$0.58	\$3.44

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

(Unaudited)

	Six-month period ended June 30, 2023			
	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance - Beginning of period	8,375,567	96,169,787	(19,896,186)	76,273,601
Net earnings for the period	-	-	4,860,860	4,860,860
Distributions declared and paid (note 6)	-	-	(4,774,073)	(4,774,073)
Balance - End of period	8,375,567	96,169,787	(19,809,399)	76,360,388

	Six-month period ended June 30, 2022			
	Number of Fund units	Amount \$	Deficit \$	Total \$
Balance – Beginning of period	8,375,567	96,169,787	(53,584,158)	42,585,629
Net earnings for the period	-	-	32,499,710	32,499,710
Distributions declared and paid (note 6)	-	-	(4,522,806)	(4,522,806)
Balance – End of period	8,375,567	96,169,787	(25,607,254)	70,562,533

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

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	4,860,860	32,499,710
Items not affecting cash		
Recovery of Investment in SIR Royalty Limited Partnership and financial assets (note 8)	-	(30,065,994)
Change in estimated fair value of the SIR Loan (note 3)	(1,500,000)	500,000
Current income taxes (note 11)	1,785,703	2,211,058
Deferred income taxes (note 11)	40,000	41,000
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	(5,499,547)	(5,455,198)
Distributions received from SIR Royalty Limited Partnership (note 8)	4,997,765	2,551,017
Interest received on SIR Loan (note 3)	1,500,000	3,600,000
Income taxes paid	(2,450,599)	(2,037,523)
Net change in non-cash working capital items (note 9)	275,700	300,767
	4,009,882	4,144,837
Financing activities		
Distributions paid to unitholders	(4,774,073)	(4,522,806)
Change in cash during the period	(764,191)	(377,969)
Cash - Beginning of period	2,275,320	1,413,130
Cash - End of period	1,511,129	1,035,161

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

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

1 Nature of operations and seasonality

Nature of operations

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

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

The address of the registered office of the Fund is 5360 South Service Road, Suite 200, Burlington, Ontario. The condensed interim consolidated financial statements were approved by the Board of Trustees on August 8, 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.

2 Basis of presentation

The Fund prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim consolidated financial statements do not include all requirements of IFRS for annual consolidated financial statements and should be read in conjunction with the 2022 audited annual consolidated financial statements and notes thereto. The financial performance of the Fund for the interim period is not necessarily indicative of the results that may be expected for the full year due to the seasonality of the Fund's business.

Recently adopted IFRS

IAS 1, Presentation of Financial Statements

The narrow-scope amendment to the standard requires entities to disclose their material accounting policy information instead of significant accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023. The amendment did not have a material impact on the consolidated financial statements.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

The narrow-scope amendment aims to improve accounting policy disclosures and to help distinguish between changes in accounting estimates and changes in accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2023. The amendment did not have a material impact on the consolidated financial statements.

IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

In January 2023, the IASB issued amendments to IAS 12 that aim to provide temporary relief from accounting for deferred taxes arising from the implementation of the Pillar Two model rules. The amendment is effective for annual periods beginning on or after January 1, 2023. The amendment did not have a material impact on the consolidated financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended June 30, 2023 \$	Six-month period ended June 30, 2023 \$	Year ended December 31, 2022 \$
Balance - Beginning of period	24,750,000	26,750,000	21,750,000
Interest received	(750,000)	(1,500,000)	(3,000,000)
Change in estimated fair value of the SIR Loan	2,750,000	1,500,000	8,000,000
Balance - End of period	<u>26,750,000</u>	<u>26,750,000</u>	<u>26,750,000</u>

The SIR Loan of \$40,000,000 bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR and its subsidiaries in Canada. Interest of \$750,000 and \$1,500,000 was recognized during the three-month and six-month periods ended June 30, 2023, respectively (three-month and six-month periods ended June 30, 2022 - \$750,000 and \$1,500,000). Interest of \$750,000 and \$1,500,000 was received during the three-month and six-month periods ended June 30, 2023 (three-month and six-month periods ended June 30, 2022 - \$750,000 and \$1,500,000). Interest of \$250,000 is outstanding and receivable from SIR Corp. at June 30, 2023.

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 11.80% as at June 30, 2023 (December 31, 2022 - 11.75%) to discount the expected cash flows. In determining the appropriate discount rate, management considered available market information as well as the credit risk for SIR.

The change in the discount rate is driven by the change in the spread between similar corporate bonds and the risk free rate over the same periods, and by management's estimate of the credit risk for SIR (see note 5).

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017, July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020, December 21, 2020, March 31, 2021, May 31, 2021, June 16, 2022 and June 6, 2023 with a Schedule I Canadian chartered bank (the Lender).

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

On June 6, 2023, SIR and its Lender entered into the Tenth Amending Agreement (“Tenth Amendment”) to its Credit Agreement. The Tenth Amendment provides for the following:

- extension of the Maturity Date from July 6, 2023 to July 6, 2026, with the exception of the guaranteed facility with Export Development Canada (the “EDC-Guaranteed Facility”) which has a new Maturity Date of July 6, 2024,
- reduced interest rates with the exception of the interest rate on the guaranteed facility with Business Development Bank of Canada (the “BDC-Guaranteed Facility”), which remains fixed at 4.0% per annum, and
- reduction of Banker’s acceptance fees on Credit Facility 1 and Credit Facility 2 with Credit Facility 2 reverting to a revolving term facility.

On June 6, 2023, as part of the Tenth Amendment, the Fund and the Partnership entered into an acknowledgement agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Tenth Amending Agreement, and
- that none of: entering the agreement, borrowing under the agreement, or performing any of the obligations under the agreement shall breach any of the terms or constitute an event of default under any of the Fund’s or the Partnership’s existing agreements with the Company.

As at May 7, 2023, the Credit Agreement between SIR and the Lender provided for a maximum principal amount of \$42,611,000 consisting of \$20,000,000 revolving term credit facility (Credit Facility 1), a \$10,921,000 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 \$5,440,000 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 2.75% and/or the bankers’ acceptance rate plus 3.75%, principal repaid in one bullet repayment on the Maturity Date. 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 May 7, 2023, \$nil was drawn on Credit Facility 1.

Credit Facility 2 bears interest at the prime rate plus 2.75% and/or the bankers’ acceptance rate plus 3.75%. 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 the Maturity Date. As at May 7, 2023, \$10,921,000 was drawn on Credit Facility 2.

As at May 7, 2023, SIR had drawn \$9,234,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 28, 2022 - \$7,530,000).

The EDC-Guaranteed Facility bears interest at the prime rate plus 3.0%. The EDC-Guaranteed Facility is a 364-day revolving-term credit facility and can be extended at the Lender’s sole discretion, in 12 month increments, by a further 12 months beyond the current expiration date of July 6, 2024. A standby fee of 0.90% is charged on the undrawn balance of this facility. As at May 7, 2023, SIR had fully drawn \$6,250,000 on this facility.

The BDC-Guaranteed Facility is a 10-year non-revolving term credit facility, with a one year principal payment moratorium, bearing a fixed rate interest of 4.0%. The moratorium has elapsed and SIR has commenced

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

repayment on this facility. For the 36-week period ended May 7, 2023, SIR repaid \$174,000. As at May 7, 2023, \$5,440,000 was drawn 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. 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. SIR has the right to require the Fund to, indirectly, purchase the Class C GP Units and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

4 Investment in SIR Royalty Limited Partnership

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

The holders of the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. As at June 30, 2023, the Fund’s interest in the residual earnings of the Partnership was 87.5% (December 31, 2022 – 86.6%). 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.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

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

	Three-month period ended June 30, 2023 \$	Three-month period ended June 30, 2022 \$	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Balance - Beginning of period	50,984,321	21,858,327	50,984,321	21,858,327
Equity income	2,958,887	3,513,392	5,499,547	5,455,198
Distributions declared	(2,958,887)	(3,513,392)	(5,499,547)	(5,455,198)
Reversal of provision for impairment	-	29,125,994	-	29,125,994
Balance - End of period	<u>50,984,321</u>	<u>50,984,321</u>	<u>50,984,321</u>	<u>50,984,321</u>

The summarized financial information of the Partnership is as follows:

	As at June 30, 2023 \$	As at December 31, 2022 \$
Cash	639,465	115,125
Other current assets	4,165,531	4,356,157
Intangible assets	93,607,420	92,151,695
Total assets	<u>98,412,416</u>	<u>96,622,977</u>
Current liabilities and total liabilities	<u>4,804,986</u>	<u>4,471,272</u>
Partners' Interest		
SIR Royalty Income Fund	35,616,956	35,616,956
SIR Corp.	57,990,474	56,534,749
Total partners' interest	<u>93,607,430</u>	<u>92,151,705</u>

	Three-month period ended June 30, 2023 \$	Three-month period ended June 30, 2022 \$	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Revenue	<u>4,273,297</u>	<u>4,086,524</u>	<u>7,961,246</u>	<u>6,440,616</u>
Net earnings and comprehensive income of the Partnership	<u>4,215,320</u>	<u>59,330,505</u>	<u>7,958,085</u>	<u>62,413,206</u>

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

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

	As at June 30, 2023 \$	As at December 31, 2022 \$
Investment in the Partnership	50,984,321	50,984,321
Transaction costs incurred by the Partnership to issue the Ordinary LP units	(3,533,090)	(3,533,090)
Difference between carrying value and fair value on the conversion of the Class A GP units to Class A LP units	(11,834,275)	(11,834,275)
SIR Royalty Income Fund's interest in the Partnership	<u>35,616,956</u>	<u>35,616,956</u>

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

	Three-month period ended June 30, 2023 \$	Three-month period ended June 30, 2022 \$	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Net earnings and comprehensive income of the Partnership	4,215,320	59,330,505	7,958,085	62,413,206
(Recovery of) impairment of financial assets	-	(209,028)	-	(209,028)
(Recovery of) impairment of intangible assets	-	(54,225,548)	-	(54,225,548)
Priority income distributed to SIR Corp. (Class C GP and Class B GP units)	4,215,320	4,895,929	7,958,085	7,978,630
	(750,003)	(750,003)	(1,500,006)	(1,500,006)
Residual earnings	3,465,317	4,145,926	6,458,079	6,478,624
SIR Corp.'s share	(506,430)	(632,534)	(958,532)	(1,023,426)
Equity income	<u>2,958,887</u>	<u>3,513,392</u>	<u>5,499,547</u>	<u>5,455,198</u>

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

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 June 30, 2023		As at December 31, 2022	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,399,586	3,399,586	2,897,804	2,897,804
Advances payable	(2,985,447)	(2,985,447)	(2,656,482)	(2,656,482)
Amounts due from (to) related parties	414,139	414,139	241,322	241,322
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	50,984,321	50,984,321
Total	51,398,460	51,398,460	51,225,643	51,225,643

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.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

5 Financial instruments

Classification

As at June 30, 2023 and December 31, 2022 the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

	Classification	Carrying and fair value	
		As at June 30, 2023 \$	As at December 31, 2022 \$
Cash	Financial assets at amortized cost	1,511,129	2,275,320
Amounts due from related parties	Financial assets at amortized cost	3,649,586	3,147,804
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	116,854	190,178
Amounts due to related parties	Financial liabilities at amortized cost	2,990,623	2,660,633

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, 2022 - \$26,750,000). 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 six-month period ended June 30, 2023, management adjusted the discount rate from 11.75% at December 31, 2022 to 11.80% at June 30, 2023. The adjustment consists of an estimated increase in the corporate bond rate of 0.16% combined with a decrease of 0.11% in the Canadian risk-free rate.

The fair value of the SIR Loan is sensitive to changes in the discount rate. A 0.25% increase or decrease in the discount rate will result in a \$550,000 decrease or increase in the fair value of the SIR Loan.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

6 Fund units

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

As at June 30, 2023, there are 8,375,567 (December 31, 2022 – 8,375,567) Fund units issued and outstanding. Each Fund unit is entitled to one vote at any meeting of unitholders.

During the six-month period ended June 30, 2023, the Fund declared and paid distributions of \$0.095 per unit for the months of January to June 2023. Subsequent to June 30, 2023, distributions of \$0.095 per unit were declared and paid for the month of July 2023.

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

7 Earnings per Fund unit

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

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

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

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

	Basic	Adjustment for conversion of Class A GP Units	Diluted
Net earnings for the three-month period ended June 30, 2023	\$ 4,560,455	\$ 369,694	\$ 4,930,149
Net earnings per Fund unit for the three-month period ended June 30, 2023	\$ 0.54		\$ 0.51
Weighted average number of Fund units outstanding for the three-month period ended June 30, 2023	8,375,567	1,200,660	9,576,227
Net earnings for the six-month period ended June 30, 2023	\$ 4,860,860	N/A	\$ 4,860,860
Net earnings per Fund unit for the six-month period ended June 30, 2023	\$ 0.58		\$ 0.58
Weighted average number of Fund units outstanding for the six-month period ended June 30, 2023	8,375,567	N/A	8,375,567
Net earnings for the three-month period ended June 30, 2022	\$ 31,444,295	\$ 461,750	\$ 31,906,045
Net loss per Fund unit for the three-month period ended June 30, 2022	\$ 3.75		\$ 3.30
Weighted average number of Fund units outstanding for the three-month ended June 30, 2022	8,375,567	1,291,618	9,667,185
Net earnings for the six-month period ended June 30, 2022	\$ 32,499,710	\$ 747,101	\$ 33,246,811
Net earnings per Fund unit for the six-month period ended June 30, 2022	\$ 3.88		\$ 3.44
Weighted average number of Fund units outstanding for the six-month period ended June 30, 2022	8,375,567	1,291,618	9,667,185

For the six-month period ended June 30, 2023, the conversion of Class A GP Units into Fund Units is anti-dilutive. Therefore, the Class A GP Units are excluded from the calculation of diluted earnings per Fund unit.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

8 Related party transactions and balances

During the three-month and six-month periods ended June 30, 2023, the Fund recorded equity income of \$2,958,887 and \$5,499,547, respectively (three-month and six-month periods ended June 30, 2022 - \$3,513,392 and \$5,455,198, respectively) and received distributions of \$2,498,883 and \$4,997,765 (three-month and six-month periods ended June 30, 2022 - \$1,275,509 and \$2,551,017) 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 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).

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

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 six-month period ended June 30, 2023, the Partnership provided these services to the Fund and the Trust for consideration of \$12,000 (six-month period ended June 30, 2022 - \$12,000), 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 June 30, 2023 \$	As at December 31, 2022 \$
Interest receivable from SIR Corp.	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,399,586	2,897,804
Amounts due from related parties	<u>3,649,586</u>	<u>3,147,804</u>
Advances payable to SIR Corp.	5,176	4,151
Advances payable to SIR Royalty Limited Partnership	2,985,447	2,656,482
Amounts due to related parties	<u>2,990,623</u>	<u>2,660,633</u>

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.

SIR Royalty Income Fund

Notes to Condensed Interim Consolidated Financial Statements

June 30, 2023 and June 30, 2022

(Unaudited)

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Prepaid expenses and other assets	19,034	11,875
Amounts due from related parties	-	10,319
Accounts payable and accrued liabilities	(73,324)	(4,185)
Amounts due to related parties	329,990	282,758
	<u>275,700</u>	<u>300,767</u>

10 Economic dependence

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

11 Income taxes

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

Income tax expense is as follows:

	Three-month period ended June 30, 2023 \$	Three-month period ended June 30, 2022 \$	Six-month period ended June 30, 2023 \$	Six-month period ended June 30, 2022 \$
Current	971,320	1,565,802	1,785,703	2,211,058
Deferred	1,000	-	40,000	41,000
	<u>972,320</u>	<u>1,565,802</u>	<u>1,825,703</u>	<u>2,252,058</u>

The Fund's income not distributed to its unitholders is taxable at a rate of 53.53% (2022 – 53.53%). Distributions to unitholders are taxable at the combined federal and provincial tax rate, which is 26.5% for the three-month and six-month periods ended June 30, 2023 (three-month and six-month periods ended June 30, 2022 – 26.5%).