SIR Royalty Income Fund

Condensed Interim Consolidated Financial Statements
(Unaudited)
For the three-month and nine-month periods ended September 30, 2023 and September 30, 2022

SIR Royalty Income Fund

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

	September 30, 2023 $	December 31, 2022 $
Assets		
Current assets		
Cash	693,392	2,275,320
Prepaid expenses and other assets	17,209	63,477
Amounts due from related parties (note 8)	3,971,626	3,147,804
	4,682,227	5,486,601
Loan receivable from SIR Corp. (note 3)	27,000,000	26,750,000
Investment in SIR Royalty Limited Partnership (note 4)	50,984,321	50,984,321
	82,666,548	83,220,922
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	133,251	190,178
Income tax payable	419,460	2,037,510
Amounts due to related parties (note 8)	3,073,552	2,660,633
	3,626,263	4,888,321
Deferred income taxes (note 11)	2,099,000	2,059,000
	5,725,263	6,947,321
Fund units (note 6)	96,169,787	96,169,787
Deficit	(19,228,502)	(19,896,186)
Total unitholders' equity (Note 6)	76,941,285	76,273,601
	82,666,548	83,220,922

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 September 30, 2023 $	Three-month period ended September 30, 2022 $	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	2,820,922	2,786,140	8,320,469	8,241,338
Recovery of investment in SIR Royalty Limited Partnership and financial assets (notes 4 and 8)	-	-	-	30,065,994
Other income	-	-	-	49,283
Change in estimated fair value of the SIR Loan (note 3)	1,000,000	1,750,000	2,500,000	1,250,000
	3,820,922	4,536,140	10,820,469	39,606,615
General and administrative expenses (note 8)	134,967	129,749	447,951	448,456
Earnings before income taxes	3,685,955	4,406,391	10,372,518	39,158,159
Income tax expense (note 11)	718,021	297,983	2,543,724	2,550,041
Net earnings and comprehensive income for the period	2,967,934	4,108,408	7,828,794	36,608,118
Basic earnings per Fund unit (note 7)	$0.35	$0.49	$0.93	$4.37
Diluted earnings per Fund unit (note 7)	$0.35	$0.46	$0.93	$3.90

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)

	Nine-month period ended September 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	-	-	7,828,794	7,828,794
Distributions declared and paid (note 6)	-	-	(7,161,110)	(7,161,110)
Balance - End of period	8,375,567	96,169,787	(19,228,502)	76,941,285

	Nine-month period ended September 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	-	-	36,608,118	36,608,118
Distributions declared and paid (note 6)	-	-	(7,914,911)	(7,914,911)
Balance – End of period	8,375,567	96,169,787	(24,890,951)	71,278,836

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)

	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Cash provided by (used in)		
Operating activities		
Net earnings for the period	7,828,794	36,608,118
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)	(2,500,000)	(1,250,000)
Current income taxes (note 11)	2,503,724	2,509,041
Deferred income taxes (note 11)	40,000	41,000
Equity income from SIR Royalty Limited Partnership (notes 4 and 8)	(8,320,469)	(8,241,338)
Distributions received from SIR Royalty Limited Partnership (note 8)	7,496,647	6,415,116
Interest received on SIR Loan (note 3)	2,250,000	2,250,000
Deferred interest received on SIR Loan (note 3)	-	2,100,000
Income taxes paid	(4,121,774)	(2,472,804)
Net change in non-cash working capital items (note 9)	402,260	430,491
	5,579,182	8,323,630
Financing activities		
Distributions paid to unitholders	(7,161,110)	(7,914,911)
Change in cash during the period	(1,581,928)	408,719
Cash - Beginning of period	2,275,320	1,413,130
Cash - End of period	693,392	1,821,849

The accompanying notes are an integral part of these condensed interim 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 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 November 9, 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.

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.

IFRS issued but not yet effective

IAS 1, Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS 1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date is for annual periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IFRS 16, Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The mandatory effective date is for annual periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

IAS 7, Disclosures on Supplier Finance Arrangements

In May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require specific disclosures regarding supplier finance arrangements. The mandatory effective date is for annual periods beginning on or after January 1, 2024. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

3 Loan receivable from SIR Corp.

	Three-month period ended September 30, 2023 $	Nine-month period ended September 30, 2023 $	Year ended December 31, 2022 $
Balance - Beginning of period	26,750,000	26,750,000	21,750,000
Interest received	(750,000)	(2,250,000)	(3,000,000)
Change in estimated fair value of the SIR Loan	1,000,000	2,500,000	8,000,000
Balance - End of period	27,000,000	27,000,000	26,750,000

The SIR Loan of $40,000,000 bears interest at 7.5% per annum, is due October 12, 2044 and is collateralized by a general security agreement covering substantially all of the assets of SIR and its subsidiaries in Canada. Interest of $750,000 and $2,250,000 was recognized and received during the three-month and nine-month periods ended September 30, 2023, respectively (three-month and nine-month periods ended September 30, 2022 - $750,000 and $2,250,000). Interest of $250,000 is outstanding and receivable from SIR Corp. at September 30, 2023 (September 30, 2022 - $250,000).

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 September 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).

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 3.25% and/or the bankers' acceptance rate plus 4.25%, 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, 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 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 repayment on this facility. As at May 7, 2023, SIR has repaid $522,000 on this facility. 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 September 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 circumstances.

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

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

	Three-month period ended September 30, 2023 $	Three-month period ended September 30, 2022 $	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Balance - Beginning of period	50,984,321	50,984,321	50,984,321	21,858,327
Equity income	2,820,922	2,786,140	8,320,469	8,241,338
Distributions declared	(2,820,922)	(2,786,140)	(8,320,469)	(8,241,338)
Reversal of provision for impairment	-	-	-	29,125,994
Balance - End of period	50,984,321	50,984,321	50,984,321	50,984,321

The summarized financial information of the Partnership is as follows:

	As at September 30, 2023 $	As at December 31, 2022 $
Cash	800,250	115,125
Other current assets	4,393,290	4,356,157
Intangible assets	93,607,420	92,151,695
Total assets	98,800,960	96,622,977
Current liabilities and total liabilities	5,193,530	4,471,272
Partners' Interest		
SIR Royalty Income Fund	35,616,956	35,616,956
SIR Corp.	57,990,474	56,534,749
Total partners' interest	93,607,430	92,151,705

	Three-month period ended September 30, 2023 $	Three-month period ended September 30, 2022 $	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Revenue	4,133,483	4,126,325	12,094,729	10,566,941
Net earnings and comprehensive income of the Partnership	4,063,477	4,061,449	12,021,562	66,474,655

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

	As at September 30, 2023 $	As at December 31, 2022 $
Investment in SIR Royalty Limited 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	35,616,956	35,616,956

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

	Three-month period ended September 30, 2023 $	Three-month period ended September 30, 2022 $	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Net earnings and comprehensive income of the Partnership	4,063,477	4,061,449	12,021,562	66,474,655
(Recovery of) impairment of financial assets	-	-	-	(209,028)
(Recovery of) impairment of intangible assets	-	-	-	(54,225,548)
	4,063,477	4,061,449	12,021,562	12,040,079
Priority income distributed to SIR Corp. (Class C GP and Class B GP units)	(750,003)	(750,003)	(2,250,009)	(2,250,009)
Residual earnings	3,313,474	3,311,446	9,771,553	9,790,070
SIR Corp.'s share	(492,552)	(525,306)	(1,451,084)	(1,548,732)
Equity income	2,820,922	2,786,140	8,320,469	8,241,338

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 September 30, 2023 $ Carrying Amount	Maximum Exposure to Loss	As at December 31, 2022 $ Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,721,626	3,721,626	2,897,804	2,897,804
Advances payable	(3,073,552)	(3,073,552)	(2,656,482)	(2,656,482)
Amounts due from related parties	648,074	648,074	241,322	241,322
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	50,984,321	50,984,321
Total	51,632,395	51,632,395	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.

5 Financial instruments

Classification

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

		Carrying and fair value	
	Classification	**As at September 30, 2023 $**	**As at December 31, 2022 $**
Cash	Financial assets at amortized cost	693,392	2,275,320
Amounts due from related parties	Financial assets at amortized cost	3,971,626	3,147,804
Loan receivable from SIR Corp. (See below)	Financial assets at fair value through profit and loss	27,000,000	26,750,000
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	133,251	190,178
Amounts due to related parties	Financial liabilities at amortized cost	419,460	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 $27,000,000 (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 nine-month period ended September 30, 2023, the discount rate remained consistent at 11.75% from December 31, 2022. The estimated decrease in the corporate bond rate of 0.59% was offset by an increase of 0.59% 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.

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 September 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 nine-month period ended September 30, 2023, the Fund declared and paid monthly distributions of $0.095 per unit. Subsequent to September 30, 2023, a distribution of $0.095 per unit was declared and paid for the month of October 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:

		Basic		Adjustment for conversion of Class A GP Units		Diluted
Net earnings for the three-month period ended September 30, 2023	$	2,967,934	$	359,563	$	3,327,497
Net earnings per Fund unit for the three-month period ended September 30, 2023	$	0.35			$	0.35
Weighted average number of Fund units outstanding for the three-month period ended September 30, 2023		8,375,567		1,200,660		9,576,227
Net earnings for the nine-month period ended September 30, 2023	$	7,828,794		1,059,291	$	8,888,085
Net earnings per Fund unit for the nine-month period ended September 30, 2023	$	0.93			$	0.93
Weighted average number of Fund units outstanding for the nine-month period ended September 30, 2023		8,375,567		1,200,660		9,576,227
Net earnings for the three-month period ended September 30, 2022	$	4,108,408	$	383,473	$	4,491,881
Net earnings per Fund unit for the three-month ended September 30, 2022	$	0.49			$	0.46
Weighted average number of Fund units outstanding for the three-month ended September 30, 2022		8,375,567		1,291,618		9,667,185
Net earnings for the nine-month period ended September 30, 2022	$	36,608,118	$	1,130,574	$	37,738,692
Net earnings per Fund unit for the nine-month period ended September 30, 2022	$	4.37			$	3.90
Weighted average number of Fund units outstanding for the nine-month period ended September 30, 2022		8,375,567		1,291,618		9,667,185

8 Related party transactions and balances

During the three-month and nine-month periods ended September 30, 2023, the Fund recorded equity income of $2,820,922 and $8,320,469, respectively (three-month and nine-month periods ended September 30, 2022 - $2,786,140 and $8,241,338, respectively) and received distributions of $2,498,882 and $7,496,647, respectively (three-month and nine-month periods ended September 30, 2022 - $3,864,099 and $6,415,116, respectively) 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 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 three-month and nine-month periods ended September 30, 2023, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 and $18,000, respectively (three-month and nine-month period ended September 30, 2022 - $6,000 and $18,000, respectively), 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 September 30, 2023 $	As at December 31, 2022 $
Interest receivable from SIR Corp.	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,721,626	2,897,804
Amounts due from related parties	3,971,626	3,147,804
Advances payable to SIR Corp.	-	4,151
Advances payable to SIR Royalty Limited Partnership	3,073,552	2,656,482
Amounts due to related parties	3,073,552	2,660,633

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.

9 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Prepaid expenses and other assets	46,268	29,407
Amounts due from related parties	-	10,319
Accounts payable and accrued liabilities	(56,927)	5,721
Amounts due to related parties	412,919	385,044
	402,260	430,491

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 September 30, 2023 $	Three-month period ended September 30, 2022 $	Nine-month period ended September 30, 2023 $	Nine-month period ended September 30, 2022 $
Current	718,021	297,983	2,503,724	2,509,041
Deferred	-	-	40,000	41,000
	718,021	297,983	2,543,724	2,550,041

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 nine-month periods ended September 30, 2023 (three-month and nine-month periods ended September 30, 2022 – 26.5%).