SIR Royalty Income Fund

Consolidated Financial Statements
December 31, 2023 and December 31, 2022

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, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- 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, comprising material accounting policy information 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, 2023. 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.

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Key audit matter	How our audit addressed the key audit matter

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, 2023, the fair value of the loan receivable from SIR (the SIR Loan) amounted to $36 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.
 	
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.
	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.
	• 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 Accounting Standards, 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

Toronto, Ontario
March 14, 2024

SIR Royalty Income Fund

Consolidated Statements of Financial Position

As at December 31, 2023 and 2022

	December 31, 2023 $	December 31, 2022 $
Assets		
Current assets		
Cash	412,181	2,275,320
Prepaid expenses and other assets	42,472	63,477
Income taxes receivable	175,753	-
Amounts due from related parties (note 10)	3,342,784	3,147,804
	3,973,190	5,486,601
Loan receivable from SIR Corp. (note 5)	36,000,000	26,750,000
Investment in SIR Royalty Limited Partnership (note 6)	50,984,321	50,984,321
	90,957,511	83,220,922
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	152,376	190,178
Income tax payable	-	2,037,510
Amounts due to related parties (note 10)	3,222,923	2,660,633
	3,375,299	4,888,321
Deferred income taxes (note 14)	2,099,000	2,059,000
	5,474,299	6,947,321
Fund units (note 8)	96,169,787	96,169,787
Deficit	(10,686,575)	(19,896,186)
Total unitholders' equity	85,483,212	76,273,601
	90,957,511	83,220,922

(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, 2023 and 2022

	Year ended December 31, 2023 $	Year ended December 31, 2022 $
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	11,074,618	10,835,868
Recovery of Investment in SIR Royalty Limited Partnership and financial assets (notes 6 and 10)	-	30,065,994
Other income	-	49,283
Change in estimated fair value of the SIR Loan (note 5)	12,250,000	8,000,000
	23,324,618	48,951,145
General and administrative expenses (note 10)	590,611	625,441
Earnings before income taxes	22,734,007	48,325,704
Income tax expense (note 14)	3,620,287	3,917,006
Net earnings and comprehensive income for the year	19,113,720	44,408,698
Basic earnings per Fund unit (note 9)	$2.28	$5.30
Diluted earnings per Fund unit (note 9)	$2.14	$4.75

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, 2023 and 2022

				Year ended December 31, 2023
	Number of Fund units	**Amount $**	**Deficit $**	**Total $**
Balance - Beginning of year	8,375,567	96,169,787	(19,896,186)	76,273,601
Net earnings for the year	-	-	19,113,720	19,113,720
Distributions declared and paid (note 8)	-	-	(9,904,109)	(9,904,109)
Balance - End of year	8,375,567	96,169,787	(10,686,575)	85,483,212

				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

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, 2023 and 2022

	Year ended December 31, 2023 $	Year ended December 31, 2022 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	19,113,720	44,408,698
Items not affecting cash		
Recovery of Investment in SIR Royalty Limited Partnership and financial assets (note 10)	-	(30,065,994)
Change in estimated fair value of the SIR Loan (note 5)	(12,250,000)	(8,000,000)
Current income taxes (note 14)	3,580,287	3,876,006
Deferred income taxes (note 14)	40,000	41,000
Equity income from SIR Royalty Limited Partnership (notes 6 and 10)	(11,074,618)	(10,835,868)
Distributions received from SIR Royalty Limited Partnership (note 10)	10,879,638	10,858,537
Interest received on SIR Loan (note 5)	3,000,000	3,000,000
Deferred interest received on SIR Loan (note 5)	-	2,100,000
Income taxes paid	(5,793,550)	(2,908,085)
Net change in non-cash working capital items (note 12)	545,493	(891,378)
	8,040,970	11,582,916
Financing activities		
Distributions paid to unitholders	(9,904,109)	(10,720,726)
Change in cash during the year	(1,863,139)	862,190
Cash - Beginning of year	2,275,320	1,413,130
Cash - End of year	412,181	2,275,320

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 consolidated financial statements were approved by the Board of Trustees on March 14, 2024.

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 consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

3 Summary of material accounting policies

The material 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 Accounting Standards 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.

Recently adopted accounting standards

Amendments to IAS 1 In February 2021, the International Accounting Standards Board issued amendments to International Accounting Standard 1 Presentation of Financial Statements ("IAS 1") and IFRS Practice Statement 2 Making Materiality Judgments ("IFRS Practice Statement 2"). The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The adoption of these amendments did not have a material impact on the Fund's consolidated financial statements.

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 $900,000 decrease or increase in the fair value of the SIR Loan.

5 Loan receivable from SIR Corp.

	Year ended December 31, 2023 $	Year ended December 31, 2022 $
Balance - Beginning of year	26,750,000	21,750,000
Interest received	(3,000,000)	(3,000,000)
Change in estimated fair value of the SIR Loan	12,250,000	8,000,000
Balance - End of year	36,000,000	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 $3,000,000 was recognized during the year ended December 31, 2023 (December 31, 2022 - $3,000,000).

Interest of $3,000,000 was received during the year ended December 31, 2023 (December 31, 2022 - $3,000,000). Interest of $250,000 is outstanding and receivable from SIR Corp. at December 31, 2023 (December 31, 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 8.50% as at December 31, 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 7).

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 November 19, 2023, the Credit Agreement between SIR and the Lender provided for a maximum principal amount of $42,043,000 consisting of $20,000,000 revolving term credit facility (Credit Facility 1), a $10,700,000 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 $5,093,000 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 November 19, 2023, $2,961,000 was drawn on Credit Facility 1.

Credit Facility 2 can be drawn for capital expenditures in new restaurants and renovations or the remodeling of existing restaurants and 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 November 19, 2023, $9,663,000 was drawn on Credit Facility 2.

As at November 19, 2023, SIR had drawn $11,006,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 27, 2023 - $4,681,000).

The EDC-Guaranteed Facility bears interest at the prime rate plus 3.00%. 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 November 19, 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 4.00%. The moratorium has elapsed and SIR has commenced repayment on this facility. During the period ended November 19, 2023, SIR had repaid $174,000 on this facility. As at November 19, 2023, $5,093,000 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.

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, 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:

	Year ended December 31, 2023 $	**Year ended December 31, 2022 $**
Balance - Beginning of year	50,984,321	21,858,327
Equity income	11,074,618	10,835,868
Distributions declared	(11,074,618)	(10,835,868)
Recovery of previous provision for impairment	-	29,125,994
Balance - End of year	50,984,321	50,984,321

The summarized financial information of the Partnership is as follows:

	As at December 31, 2023 $	As at December 31, 2022 $
Cash	776,498	115,125
Other current assets	3,815,945	4,356,157
Intangible assets	93,607,420	92,151,695
Total assets	98,199,863	96,622,977
Current liabilities and total liabilities	4,592,433	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

	Year ended December 31, 2023 $	Year ended December 31, 2022 $
Revenue	15,984,883	14,464,939
Net earnings and comprehensive income of the Partnership	15,955,489	70,307,661

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

	As at December 31, 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:

	Year ended December 31, 2023 $	Year ended December 31, 2022 $
Net earnings and comprehensive income of the Partnership	15,955,489	70,307,661
Recovery of impairment of financial assets	-	(209,028)
Recovery of impairment of intangible assets	-	(54,225,548)
	15,955,489	15,873,085
Priority income distributed to SIR Corp. (Class C GP and Class B GP units)	(3,000,012)	(3,000,012)
Residual earnings	12,955,477	12,873,073
SIR Corp.'s share	(1,880,859)	(2,037,205)
Equity income	11,074,618	10,835,868

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, 2023 $		As at December 31, 2022 $	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Distributions receivable	3,092,784	3,092,784	2,897,804	2,897,804
Advances payable	(3,222,923)	(3,222,923)	(2,656,482)	(2,656,482)
Amounts due (to) from related parties	(130,139)	(130,139)	241,322	241,322
Investment in SIR Royalty Limited Partnership	50,984,321	50,984,321	50,984,321	50,984,321
Total	50,854,182	50,854,182	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.

7 Financial instruments

Classification

As at December 31, 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 December 31, 2023 $	Carrying and fair value As at December 31, 2022 $
Cash	Financial assets at amortized cost	412,181	2,275,320
Amounts due from related parties	Financial assets at amortized cost	3,342,784	3,147,804
Loan receivable from SIR Corp. (See below)	Financial assets at fair value through profit and loss	36,000,000	26,750,000
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	152,376	190,178
Amounts due to related parties	Financial liabilities at amortized cost	3,222,923	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 $36,000,000 (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 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, 2023, management adjusted the discount rate from 11.75% at December 31, 2022 to 8.50% at December 31, 2023. The adjustment consists of an estimated decrease in the corporate bond rate of 0.97%, a 0.28% decrease in the Canadian risk free rate and another 2.0% decrease 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 $900,000 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, 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 year ended December 31, 2023, the Fund declared and paid monthly distributions of $0.095 per unit. An additional special cash distribution of $0.0425 per unit was also declared and paid out in December 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.

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 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 year ended December 31, 2023	$ 19,113,720	$ 1,373,028	$ 20,486,748
Net earnings per Fund unit for the year ended December 31, 2023	$ 2.28		$ 2.14
Weighted average number of Fund units outstanding for the year ended December 31, 2023	8,375,567	1,200,660	9,576,227
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

For both years ended December 31, 2023 and December 31, 2022, 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, 2023, the Fund recorded equity income of $11,074,618 (year ended December 31, 2022 - $10,835,868) and received distributions of $10,879,638 (year ended December 31, 2022 - $10,858,537) 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. The Trustees have agreed to further extend the trial until August 25, 2024 to coincide with SIR Corp.'s fiscal year end. In exchange, SIR will continue to pay 6% of the revenues arising there from 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, 2024, one new SIR Restaurant was added (January 1, 2023 – two) to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2024 (January 1, 2023 – two) as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2023 (January 1, 2022 – nil), SIR converted its Class B GP Units into Class A GP Units based on the formula defined in the Partnership Agreement. In addition, there was a re-conversion of Class A GP Units into Class B GP Units for the permanent closure of three (January 1, 2023 – two) SIR Restaurants during 2023. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR returned 212,825 Class A GP Units into 212,825 Class B GP Units (January 1, 2023 – SIR converted 90,958 Class A GP Units into Class B GP Units) on January 1, 2024, decreasing the value of the SIR Rights by $1,612,625 (January 1, 2023 – increasing the value of the SIR rights by $1,455,725).

In addition, the revenues of the two (January 1, 2022 – nil) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2023 were less than 80% of the Initial Adjustment's estimated revenue and, as a result, the distributions of the Class A GP Units were reduced by a special conversion refund of $52,099 in December 2023 and paid in February 2024 (no conversion distributions effective in December 2022 as no new SIR Restaurants were added to Royalty Pooled Restaurants on January 1, 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, 2023, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (year ended December 31, 2022 - $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, 2023 $	As at December 31, 2022 $
Interest receivable from SIR Corp.	250,000	250,000
Distributions receivable from SIR Royalty Limited Partnership	3,092,784	2,897,804
Amounts due from related parties	3,342,784	3,147,804
Advances payable to SIR Corp.	-	4,151
Advances payable to SIR Royalty Limited Partnership	3,222,923	2,656,482
Amounts due to related parties	3,222,923	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.

Compensation of key management

The Fund does not have any employees. Compensation awarded to the Board of Trustees consists of fees of $207,743 for the year ended December 31, 2023 (2022 - $228,170) 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, 2023 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, 2023 $	Year ended December 31, 2022 $
Prepaid expenses and other assets	21,005	(21,218)
Amounts due from related parties	-	86,495
Accounts payable and accrued liabilities	(37,802)	58,706
Amounts due to related parties	562,290	(1,015,361)
	545,493	(891,378)

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, 2023 $	Year ended December 31, 2022 $
Current	3,580,287	3,876,006
Deferred	40,000	41,000
	3,620,287	3,917,006

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 year ended December 31, 2023 (year ended December 31, 2022 – 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, 2023 $	Year ended December 31, 2022 $
Earnings before income taxes	22,734,007	48,325,704
Less: Recovery of impairment of intangible and financial assets and change in fair value of SIR loan	12,250,000	38,065,994
	10,484,007	10,259,710
Income tax provision at 53.53% (2022 – 53.53%)	5,612,089	5,492,023
Add (deduct):		
Change in deferred tax asset not recognized	1,650,000	2,173,318
Differences in tax rates	(3,643,944)	(3,830,970)
Other	2,142	82,635
	3,620,287	3,917,006

Deferred tax liabilities recognized on the Investment in the Partnership:

	Year ended December 31, 2023 $
Balance as at December 31, 2021	2,018,000
Charged to consolidated statements of earnings and comprehensive income	41,000
Balance as at December 31, 2022	2,059,000
Charged to consolidated statement of earnings and comprehensive income	40,000
Balance as at December 31, 2023	2,099,000