

SIR Royalty Limited Partnership

Condensed Interim Financial Statements
(Unaudited)

**For the three-month and nine-month periods ended
September 30, 2020 and September 30, 2019**

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SIR Royalty Limited Partnership
 Condensed Interim Statements of Financial Position
 (Unaudited)

	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash	15,958	629,257
Prepaid expenses and other assets	-	16,168
Amounts due from related parties (note 6)	7,301,803	4,690,585
	<u>7,317,761</u>	<u>5,336,010</u>
Intangible assets (note 3)	46,699,990	104,418,635
	<u>54,017,751</u>	<u>109,754,645</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	162,092	215,574
Amounts due to related parties (note 6)	7,364,687	5,120,426
	<u>7,526,779</u>	<u>5,336,000</u>
Partners' Interest (note 4)	46,490,972	104,418,645
	<u>54,017,751</u>	<u>109,754,645</u>

Subsequent events (note 9)

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Earnings (Loss) and Comprehensive Income (Loss)

(Unaudited)

	Three-month period ended September 30, 2020 \$	Three-month period ended September 30, 2019 \$	Nine-month period ended September 30, 2020 \$	Nine-month period ended September 30, 2019 \$
Revenues				
Royalty income (notes 1 and 6)	2,394,114	4,394,201	5,983,814	13,280,276
Administration fee (note 6)	6,000	6,000	18,000	18,000
	<u>2,400,114</u>	<u>4,400,201</u>	<u>6,001,814</u>	<u>13,298,276</u>
Expenses				
General and administrative	49,683	21,071	94,450	66,116
Impairment of financial and intangible assets (notes 3 and 6)	13,909,038	-	54,434,577	-
	<u>(11,558,607)</u>	<u>4,379,130</u>	<u>(48,527,213)</u>	<u>13,232,160</u>
Net earnings (loss) and comprehensive income (loss) for the period				

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Partners' Interest

(Unaudited)

For the nine-month periods ended September 30, 2020 and 2019

	Number of units	Balance - January 1, 2020	Units issued	Net earnings (loss) for the period	Distributions declared	Balance - September 30, 2020
	(note 4)	\$	\$	\$	\$	\$
Ordinary LP units	5,356,667	7,633,570	-	(6,711,077)	(922,493)	-
Class A LP units	3,018,900	27,983,375	-	(19,743,030)	(1,749,433)	6,490,912
Ordinary GP units	100	11	-	84	(45)	50
Class A GP units	1,818,351	28,801,688	(3,493,096)	(24,323,208)	(985,384)	-
Class B GP units	95,757,934	1	-	18	(9)	10
Class C GP units	4,000,000	40,000,000	-	2,250,000	(2,250,000)	40,000,000
		104,418,645	(3,493,096)	(48,527,213)	(5,907,364)	46,490,972

	Number of units	Balance - January 1, 2019	Units issued	Net earnings for the period	Distributions declared	Balance - September 30, 2019
	(note 4)	\$	\$	\$	\$	\$
Ordinary LP units	5,356,667	7,633,570	-	4,518,746	(4,518,746)	7,633,570
Class A LP units	3,018,900	27,983,375	-	3,772,153	(3,772,153)	27,983,375
Ordinary GP units	100	11	-	45	(45)	11
Class A GP units	2,214,250	24,815,424	3,986,264	2,691,207	(2,691,207)	28,801,688
Class B GP units	95,362,035	1	-	9	(9)	1
Class C GP units	4,000,000	40,000,000	-	2,250,000	(2,250,000)	40,000,000
		100,432,381	3,986,264	13,232,160	(13,232,160)	104,418,645

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

SIR Royalty Limited Partnership
 Condensed Interim Statements of Cash Flows
 (Unaudited)

	Nine-month period ended September 30, 2020 \$	Nine-month period ended September 30, 2019 \$
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	(48,527,213)	13,232,160
Impairment of financial and intangible assets (notes 3 and 6)	54,434,577	-
Net change in non-cash working capital items (note 8)	(2,857,560)	170,592
	<u>3,049,804</u>	<u>13,402,752</u>
Financing activities		
Distributions paid	(3,663,103)	(13,630,196)
	<u>(613,299)</u>	<u>(227,444)</u>
Change in cash during the period	(613,299)	(227,444)
Cash - Beginning of period	<u>629,257</u>	<u>243,849</u>
Cash - End of period	<u>15,958</u>	<u>16,405</u>

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

SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

September 30, 2020 and September 30, 2019

(Unaudited)

1 Nature of operations and seasonality

Nature of operations

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

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

The address of the Partnership's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The financial statements were approved by the Board of Directors of SIR GP Inc. on November 13, 2020.

Seasonality

The full-service restaurant sector of the Canadian food-service industry, in which SIR operates, experiences seasonal fluctuations in revenues. Favourable summer weather generally results in increased revenues during SIR's fourth quarter (ending the last Sunday in August) when patios can be open. Additionally, certain holidays and observances also affect dining patterns, both favourably and unfavourably. Accordingly, royalty income recognized by the Partnership will vary in conjunction with the seasonality in revenues experienced by SIR.

Coronavirus (COVID-19) outbreak

The outbreak of the COVID-19 in Canada has had a negative impact on global economic activity and has had a significant impact on consumer spending in Canada, including restaurant sales. This has resulted in a severe drop in in-restaurant dining and, effective March 16, 2020, SIR closed all of its dining rooms and bars. These mandated closures are to continue until further notice, in an effort to help reduce large group gatherings as required by public health and government officials.

SIR continued to offer take-out and delivery services at certain of its Jack Astor's and Scaddabush locations and, beginning on June 9, 2020, restaurant re-openings commenced in western Canada and the Maritime provinces. On June 12, 2020, certain regions in the province of Ontario began re-opening of patio dining. On June 15, 2020, restaurants in Quebec, outside of Montreal, were permitted to re-open for sit-down dining, with Montreal area restaurants following on June 22, 2020.

On July 17, 2020, the province of Ontario permitted the re-opening of limited capacity in-restaurant and patio dining in most public health regions of the province, with exceptions of the Toronto, Peel and Windsor-Essex

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regions. Accordingly, SIR commenced the gradual re-opening of dine-in and outdoor patio operations at the majority of its restaurants in these regions. On July 31, 2020, the province of Ontario permitted restaurants in the Toronto and Peel public health regions, where SIR has 26 restaurants, to re-open on a similar basis to other regions in the province.

2 Basis of presentation and summary of significant accounting policies

Basis of presentation

The Partnership prepares its interim condensed financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2019 audited annual financial statements and notes thereto. The financial performance of the Partnership 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 Partnership's business.

The accounting policies applied in these interim financial statements are consistent with those followed in the 2019 audited annual financial statements.

3 Intangible assets

	Nine-month period ended September 30, 2020 \$
SIR Rights - Beginning of period	104,418,635
Adjustment to Royalty Pooled Restaurants	(3,493,096)
Provision for impairment	<u>(54,225,549)</u>
SIR Rights - End of period	<u>46,699,990</u>

An impairment was recorded in the Partnership to bring the investment in the SIR Rights down to fair value. The Partnership recognized an impairment on the investment in the SIR Rights of \$40,525,539 in the first quarter of 2020 and an additional \$13,700,010 in the third quarter of 2020, for a total at September 30, 2020 of \$54,225,549, resulting in an impairment on the Fund's investment in the Partnership of \$29,125,994.

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In assessing the intangible assets for impairment at September 30, 2020 and December 31, 2019, the aggregate recoverable amount of the intangible assets was compared to its carrying amounts. The recoverable amount at March 31, 2020 was determined using the assistance of a third party valuator based on fair value less costs to sell using a four-year discounted cash flow considering a terminal value. This methodology carried forward to the September 30, 2020 fair value determination. The key assumptions included the following:

	As at September 30, 2020	As at December 31, 2019
Revenue growth rates	0.0% to 2.0%	0.0% to 1.0%
Terminal growth rate	2.0%	2.0%
Discount rate	22.5% to 26.3%	12.0% to 12.8%

The revenue growth rates of 0.0% to 2.0% are for periods beyond the large declines projected for 2020 and the large offsetting growth rates as sales are projected to recover in 2021.

On January 1, 2020, one new SIR Restaurant was added (January 1, 2019 – two new SIR Restaurants were added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement (note 4).

4 Partners' interest

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

Class	Authorized	As at September 30, 2020		As at December 31, 2019	
		Issued	Amount \$	Issued	Amount \$
Class A LP Units	Unlimited	3,018,900	6,490,912	3,018,900	27,983,375
Class C LP Units	Unlimited	-	-	-	-
Ordinary LP Units	Unlimited	5,356,667	-	5,356,667	7,633,570
Ordinary GP Units	Unlimited	100	50	100	11
Class A GP Units (note 3)	Unlimited	1,818,351	-	2,214,250	28,801,688
Class B GP Units (note 3)	Unlimited	95,757,934	10	95,362,035	1
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>46,490,972</u>		<u>104,418,645</u>

The capital balances at September 30, 2020 were adjusted based on the hypothetical liquidation value at September 30, 2020 when the Partnership recorded an impairment on the intangible assets. The Class B GP

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(Unaudited)

Units, the Class C GP Units, and the Ordinary GP Units have preferential rights on liquidation as they entitle the holders to a fixed dividend on liquidation, in addition to a share of the Partnership's net assets. Class A LP Units, Class A GP Units, and Ordinary LP Units have a right to a pro rata share of the net assets of the Partnership.

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

Ordinary LP Units and Ordinary GP Units

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

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

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

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

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

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

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

On January 1 of each year, Class B GP Units are converted into Class A GP Units for new SIR Restaurants added to the Royalty Pooled Restaurants based on 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Additional Class B GP Units may be converted into Class A GP Units in respect of these new SIR Restaurants if actual revenues of the new SIR Restaurants exceeded 80% of the initial estimated revenues and the formula defined in the Partnership Agreement. Conversely, converted Class A GP Units would be returned by SIR if the actual revenues of the new SIR Restaurants are less than 80% of the initial estimated revenues. On January 1 of each year, SIR will reconvert the Class A GP Units received to Class B GP Units for the permanent closure of a SIR Restaurant.

In December of each year, an additional distribution will be payable to the Class B GP unitholders provided that actual revenues of the new SIR Restaurants exceed 80% of the initial estimated revenues, or there will be a reduction in the distributions to the Class A GP unitholders if revenues are less than 80% of the initial estimated revenues.

On January 1, 2020, one new SIR Restaurant was added (January 1, 2019 – two new SIR Restaurants were added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the

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additional Royalty associated with the addition of one new SIR Restaurant on January 1, 2020 (January 1, 2019 – two new SIR Restaurants), as well as the Second Incremental Adjustment for two new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 (January 1, 2018 - three), 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, 2019 – one) SIR Restaurants during 2019. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units (January 1, 2019 – SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units) on January 1, 2020 reducing the value of the SIR Rights by \$3,493,096 (January 1, 2019 – increasing the value of the SIR Rights by \$3,986,264).

In addition, the revenues of the two (January 1, 2018 – three) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2019 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2018 – revenue of the three new SIR Restaurants exceeded 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 \$23,240 in December 2019 and paid in January 2020 (a special conversion distribution of \$90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019). As a result of the permanent closure of two Jack Astor's restaurants during the year ended December 31, 2019, Make-Whole Payments of \$267,573 (year ended December 31, 2018 - \$11,986) have been recorded in Royalty income in the statement of earnings and comprehensive income of the Partnership for the year ended December 31, 2019.

Effective January 1, 2020, SIR's residual interest in the Partnership is 17.84%.

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

Class C GP Units

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

SIR has the right to require the Fund to, indirectly, purchase the Class C GP Units and assume a portion of the SIR Loan as consideration for the acquisition of the Class C GP Units.

Class C LP Units

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

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(Unaudited)

5 Financial instruments

Classification

As at September 30, 2020 and December 31, 2019, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
		As at	As at
		September 30,	December 31,
		2020	2019
		\$	\$
	Classification		
Cash	Financial assets at amortized cost	15,958	629,257
Amounts due from related parties	Financial assets at amortized cost	7,301,803	4,690,585
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	162,092	215,574
Amounts due to related parties	Financial liabilities at amortized cost	7,364,687	5,120,426

Carrying and fair value

Cash, amounts due from related parties, accounts payable and accrued liabilities and amounts due to related parties are short-term financial instruments whose fair value approximates the carrying amount given that they will mature in the short term.

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Notes to the Condensed Interim Financial Statements

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(Unaudited)

6 Related party balances and transactions

	As at September 30, 2020 \$	As at December 31, 2019 \$
SIR Corp.		
Royalties receivable	3,006,786	771,820
Advances receivable	688,323	574,508
	<u>3,695,109</u>	<u>1,346,328</u>
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	<u>3,606,694</u>	<u>3,344,257</u>
Amounts due from related parties	<u>7,301,803</u>	<u>4,690,585</u>
Distributions payable to SIR Corp	3,199,205	1,387,146
Distributions payable to SIR Royalty Income Fund and its subsidiaries	<u>4,165,482</u>	<u>3,733,280</u>
Amounts due to related parties	<u>7,364,687</u>	<u>5,120,426</u>

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

The Partnership continues to defer the collection of restaurant royalties in order to provide SIR with financial support. During the three-month and nine-month periods ended September 30, 2020, the Partnership recognized an impairment loss on the royalties receivable from SIR based on management's assessment of the SIR-specific risk. A rate of 6.5% was applied to the royalties receivable at September 30, 2020.

	As at September 30, 2020 \$
SIR Corp.	
Royalties receivable	3,215,814
Provision for impairment	<u>(209,028)</u>
	<u>3,006,786</u>

Impairment losses on royalties receivable are presented as net impairment losses within net earnings (loss) and comprehensive income (loss).

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Notes to the Condensed Interim Financial Statements

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(Unaudited)

During the three-month and nine-month periods ended September 30, 2020, the Partnership earned royalty income of \$2,394,114 and \$5,983,814, respectively, from SIR (three-month and nine-month periods ended September 30, 2019 - \$4,394,201 and \$13,280,276, respectively). The Partnership's royalty income is determined based on 6% of the revenues from certain SIR Restaurants subject to the Licence and Royalty Agreement between the Partnership and SIR. SIR makes 13 Royalty payments based on SIR's 13 four- or five-week period fiscal year and, as such, royalty payments can fluctuate depending on how the four- or five-week periods coincide with the Partnership's calendar fiscal year. Under the terms of the Licence and Royalty Agreement, SIR may be required to pay a Make-Whole Payment in respect of the reduction in revenues for restaurants permanently closed during a reporting period. SIR is not required to pay any Make-Whole Payment in respect of a permanently closed restaurant following the date on which the number of restaurants in the Royalty Pooled Restaurants is equal to or greater than 68 or following October 12, 2019, whichever occurs first. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new restaurants opened for at least 60 days preceding such Adjustment Date in the previous fiscal year. At each Adjustment Date, SIR will be entitled to convert its Class B GP Units into Class A GP Units based on the conversion formula defined in the Partnership Agreement (note 4). As a result of the permanent closure of two SIR Restaurants during the nine-month period ended September 30, 2019, a Make-Whole Payment of \$267,573 has been recorded in Royalty income in the statement of earnings and comprehensive income for the nine-month period ended September 30, 2019.

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, 2020, 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 periods ended September 30, 2019 - \$6,000 and \$18,000, respectively), which was the amount of consideration agreed to by the related parties.

7 Economic dependence

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

SIR has a credit agreement (Credit Agreement), as amended on December 8, 2017, July 6, 2018, April 1, 2020, June 30, 2020, and September 30, 2020 with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of \$42,328,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), and a \$22,328,000 revolving term loan (Credit Facility 2). 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, bearing interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%, principal repaid in one bullet repayment on July 6, 2021 (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.

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Credit Facility 2 bears interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on the Maturity Date. On April 2, 2020, SIR redrew an additional \$5,500,000 on Credit Facility 2.

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 is effected pursuant to the terms of an Intercreditor Agreement.

Under the Intercreditor Agreement, absent a default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the Credit Agreement for a period of up to nine consecutive months. SIR and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the subordinating parties not demanding repayment or enforcing security as a result of any such related party obligation default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership in which they are compliant.

At May 3, 2020, the end of SIR's third quarter, SIR was in breach of the covenants in the SIR Loan Agreement and the financial covenants in its Credit Agreement. At the time of filing SIR Corp.'s fiscal 2020 third quarter results on July 30, 2020, SIR was in breach of its financial and non-financial covenants as outlined in its credit agreement with the Lender as a result of the impact of the COVID-19 outbreak on its operations. As part of the fourth amending agreement with the Lender, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount beginning with SIR Corp.'s results for the 13-week and 52-week periods ended August 30, 2020. SIR's Management continues to work closely with its Lender for guidance and support.

On May 27, 2020, effective April 1, 2020, SIR obtained a waiver with its senior lender on its covenants until June 30, 2020.

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On June 30, 2020, SIR and its Lender entered into a fourth amending agreement to its Credit Agreement (the “Waiver and Amendment”). The Waiver and Amendment provides for the following:

- extension of the waivers of certain anticipated covenant breaches and events of default granted in the June 1, 2020 Third Amending Agreement effective April 1, 2020 until August 31, 2020 (the “Waiver Period”),
- waiving, for the Waiver Period and for the period September 1, 2020 to the Maturity Date, the financial covenants in the Credit Agreement,
- during the Waiver Period and the period September 1, 2020 until the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount, and
- the addition of a new \$6,250,000 EDC guaranteed BCAP (the “EDC-Guaranteed Facility”) to the Credit Agreement – the EDC-Guaranteed Facility is a 364 day revolving term credit facility and can be extended at the Lender’s sole discretion by a further 12 months.

There can be no assurance that SIR will receive additional waivers or remain in compliance in the future.

On June 30, 2020, the Fund and the Partnership entered into an acknowledgement and consent agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Waiver and Amendment,
- 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 SIR,
- any debt arising under the EDC-Guaranteed Facility constitutes Permitted Debt (as such term is defined in the SIR Loan Agreement).

On June 30, 2020, the Fund, the Partnership, and SIR entered into a waiver and extension agreement that, among other things:

- extends the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from June 30, 2020 to August 31, 2020,
- waives any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until August 31, 2020.

On September 30, 2020 SIR and its Lender entered into a fifth amending agreement to its Credit Agreement which, among other things, extended certain waivers from August 31, 2020 to December 31, 2020. There can be no assurance that SIR will receive additional waivers or remain in compliance in the future.

On September 30, 2020, the Fund and the Partnership entered into an acknowledgement consent agreement with the Lender, and the Fund, the Partnership, and SIR entered into a waiver and extension agreement. The current expiration date of certain deferrals in these agreements is December 31, 2020.

SIR has advised the Fund that its ability to meet its obligations for the next 12 to 18 months is dependent on:

- its ability to obtain necessary financing through a renewal of its Credit Agreement,
- the collectability of credit under the current Credit Agreement or other financing sources,
- government assistance, including the Canada Emergency Wage Subsidy,
- the collectability or utilization of business interruption or other insurance coverage, and
- SIR’s ability to negotiate longer term extended credit terms from its suppliers, including negotiating deferrals of rent obligations over the terms of its leases.

SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

September 30, 2020 and September 30, 2019

(Unaudited)

8 Net change in non-cash working capital items

Net change in non-cash working capital items comprises:

	Nine-month period ended September 30, 2020 \$	Nine-month period ended September 30, 2019 \$
Prepaid expenses and other assets	16,168	15,502
Amounts due from related parties	(2,820,246)	172,465
Accounts payable and accrued liabilities	(53,482)	(17,375)
	<hr/>	<hr/>
	(2,857,560)	170,592
	<hr/>	<hr/>

9 Subsequent events

Due to increasing COVID-19 case counts in Ontario and Quebec, there is currently a risk of increased restrictions on in-restaurant dining. Increased restrictions are likely to target regions with the highest new case rates. These restrictions may include, among other things, in increasing levels of adverse impact on SIR's business, such as: lowering music levels, shorter hours for alcohol service, reductions to group sizes, further reductions to indoor seating, and full closure of indoor dining.

On September 28, 2020 the Quebec government announced, effective October 1, 2020, all restaurants and bars in three regions of the province with high rates of new cases would be closed for at least 28 days other than for takeout and delivery. This affected four Jack Astor's locations. Prior to the end of October, the closures were extended another 28 days to November 23, 2020.

SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

September 30, 2020 and September 30, 2019

(Unaudited)

Effective October 10, 2020, the Toronto, Ottawa and Peel regions returned to modified Stage 2 restrictions, resulting in the temporary closure of indoor dining rooms and bars in these regions for 28 days. SIR has 28 restaurants in these regions. Effective October 19, 2020, the York region, where SIR has five restaurants, was also returned to modified Stage 2 restrictions for 28 days. As of November 7, 2020, dining rooms in the Toronto, Ottawa, Peel, and York regions were permitted to re-open. Effective November 9, 2020, additional regions were moved into various zones within the provincial government's COVID-19 framework, which restricts the capacity of indoor dining guests, as follows:

Provincial Tier	Public Health Region (Number of SIR restaurants)
Red/Control <ul style="list-style-type: none">indoor dining capacity: 10maximum number of guests per table: 4	Peel* (6) Toronto* (19) York (5) Halton (3) Hamilton (2)
Orange/Restrict <ul style="list-style-type: none">indoor dining capacity: 50maximum number of guests per table: 4	Durham (2) Niagara (2) Ottawa (3) Waterloo (1)
Yellow/Protect <ul style="list-style-type: none">maximum number of guests per table: 6	London Middlesex (3) Simcoe-Muskoka (1)

*Toronto and Peel regions have not announced any plans to re-open indoor dining at this time.

SIR's ability to meet its financial obligations for the next 12 to 18 months also depends on, among other factors:

- the length of the closure of dine-in operations,
- the speed at which SIR is able to return to full operating capacity in the near future,
- Canadian economic conditions after bars and restaurants are able to re-open, and
- the type and impact of new government mandated pandemic-related operating regulations.

Reduced services and restaurant closures have resulted, and will continue to result, in material declines to sales at SIR restaurants. In order to provide SIR with financial support, the Partnership deferred the collection of restaurant royalties and the Fund deferred the collection of interest on the SIR Loan from SIR until December 31, 2020.