SIR Royalty Limited Partnership

Financial Statements
December 31, 2020 and December 31, 2019

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Independent auditor's report

To the Partners of SIR Royalty Limited Partnership

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SIR Royalty Limited Partnership (the Partnership) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Partnership's financial statements comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of (loss) earnings and comprehensive (loss) income for the years then ended;
- the statements of partners' interest for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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 Partnership in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Partnership's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Partnership'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 Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Partnership'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 Partnership'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 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 Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Oakville, Ontario
March 31, 2021

SIR Royalty Limited Partnership

Statements of Financial Position

As at December 31, 2020 and 2019

	December 31, 2020 $	December 31, 2019 $
Assets		
Current assets		
Cash	2,544	629,257
Prepaid expenses and other assets	21,778	16,168
Amounts due from related parties (note 7)	6,872,036	4,690,585
	6,896,358	5,336,010
Intangible assets (note 4)	46,699,989	104,418,635
	53,596,347	109,754,645
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	115,842	215,574
Amounts due to related parties (note 7)	6,989,533	5,120,426
	7,105,375	5,336,000
Partners' Interest (note 5)	46,490,972	104,418,645
	53,596,347	109,754,645

Subsequent events (note 11)

Approved by the Directors of SIR GP

(Signed) Peter Luit
Peter Luit, Director

(Signed) Peter Fowler
Peter Fowler, Director

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

SIR Royalty Limited Partnership

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

For the years ended December 31, 2020 and 2019

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Revenues		
Royalty income (notes 1 and 7)	7,200,769	17,327,570
Administration fee (note 7)	24,000	24,000
	7,224,769	17,351,570
Expenses		
General and administrative	128,479	79,524
Impairment of financial and intangible assets	55,998,656	-
Net (loss) earnings and comprehensive (loss) income for the year	(48,902,366)	17,272,046

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

SIR Royalty Limited Partnership

Statements of Partners' Interest

For the years ended December 31, 2020 and 2019

	Number of units (note 4)	Balance - January 1, 2020 $	Units (returned) issued $ (note 4)	Net (loss) earnings for the year $	Distributions declared $	Balance – December 31, 2020 $
Ordinary LP units	5,356,667	7,633,570	-	(7,628,548)	(5,022)	-
Class A LP units	3,018,900	27,983,375	-	(19,851,512)	(1,640,951)	6,490,912
Ordinary GP units	100	11	-	99	(60)	50
Class A GP units	1,818,351	28,801,688	(3,493,096)	(24,422,426)	(886,166)	-
Class B GP units	95,757,934	1	-	21	(12)	10
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		104,418,645	(3,493,096)	(48,902,366)	(5,532,211)	46,490,972

	Number of units (note 4)	Balance - January 1, 2019 $	Units issued $ (note 4)	Net earnings for the year $	Distributions declared $	Balance – December 31, 2019 $
Ordinary LP units	5,356,667	7,633,570	-	5,850,437	(5,850,437)	7,633,570
Class A LP units	3,018,900	27,983,375	-	4,930,446	(4,930,446)	27,983,375
Ordinary GP units	100	11	-	60	(60)	11
Class A GP units	2,214,250	24,815,424	3,986,264	3,491,091	(3,491,091)	28,801,688
Class B GP units	95,362,035	1	-	12	(12)	1
Class C GP units	4,000,000	40,000,000	-	3,000,000	(3,000,000)	40,000,000
		100,432,381	3,986,264	17,272,046	(17,272,046)	104,418,645

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

SIR Royalty Limited Partnership

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the year	(48,902,366)	17,272,046
Net change in non-cash working capital items (note 10)	(4,059,900)	777,223
Impairment of financial and intangible assets	55,998,656	-
	3,036,390	18,049,269
Financing activities		
Distributions paid	(3,663,103)	(17,663,861)
Change in cash during the year	(626,713)	385,408
Cash - Beginning of year	629,257	243,849
Cash - End of year	2,544	629,257

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

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 March 31, 2021.

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) pandemic

The COVID-19 pandemic 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, except for takeout and delivery services at certain of its locations. Government mandated restrictions were eased in June and July, 2020, enabling varying levels of in-restaurant and outdoor dining operations by region. Government mandated restrictions were heightened again in October, November and December 2020. Mandated restaurant closures and /or operating restrictions are expected to continue until further notice, in an effort to reduce large group gatherings as required by public health and government officials.

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 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 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.

Due to increasing COVID-19 case counts in Quebec, the provincial government imposed increased restrictions on in-restaurant dining. Increased restrictions target regions with the highest new case rates. On 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. This initial 28-day closure period was extended multiple times and has now been extended until further notice.

Due to increasing COVID-19 case counts in Ontario, effective October 10, 2020, the Toronto, Ottawa and Peel public health regions, where SIR has 28 restaurants, returned to modified Stage 2 restrictions, resulting in the temporary closure of indoor dining rooms and bars in these regions for 28 days. 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 new COVID-19 framework, which restricted the capacity of indoor dining guests. The Red/Control zone, which limited indoor dining capacity to 10 guests, affected 35 SIR restaurants in the Toronto, Peel, York, Halton, and Hamilton regions.

Subsequent to November 22, 2020, effective January 8, 2021, SIR permanently closed the Canyon Creek locations at the Square One shopping centre in Mississauga, Ontario and in Scarborough, Ontario.

Effective November 23, 2020, the Ontario government announced additional movement of various regions within its COVID-19 framework. 25 SIR restaurants (in the Toronto and Peel regions) were moved into the Grey/Lockdown zone, which prohibits indoor and patio dining. York, Halton, Hamilton, Durham, and Kitchener-Waterloo regions, where SIR has a total of 13 restaurants, were classified under the Red/Control zone, which limits indoor dining capacity to 10 guests.

Effective November 26, 2020, the provincial government in Nova Scotia, announced the closure of all restaurant dining rooms in the Halifax Regional Municipality, where SIR has two restaurants. Restaurant dining rooms were permitted to re-open in the Halifax Regional Municipality on January 4, 2021.

Due to the continuing increase in COVID-19 case counts, the government of Ontario moved all regions in Southern Ontario into lockdown for at least 28 days beginning on December 26, 2020. As a result, SIR closed all of its dining rooms, bars, and patios. SIR continues to offer take-out and delivery services at certain of its locations.

Going concern

The financial statements of the Partnership have been prepared using International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities during the normal course of operations for the foreseeable future. In the preparation of financial statements, the Partnership's management is required to identify when events or conditions indicate that significant doubt may exist about the Partnership's ability to continue as a going concern. Significant doubt about the Partnership's ability to continue as a going concern would exist when relevant conditions and events indicate that the Partnership will not be able to meet its obligations as they become due for a period of at least, but not limited to, twelve months from the end of the reporting period. When the Partnership identifies conditions or events that raise potential for significant doubt about its ability to continue as a going concern, the Partnership considers whether its plans that are intended to mitigate those relevant conditions or events will alleviate the potential significant doubt.

Given the uncertainty surrounding the COVID-19 pandemic and the increasing government mandated shutdowns and the related impact to SIR, which the Partnership is dependent on for cash flow, the Partnership's ability to continue as a going concern for the next 12 to 18 months involves significant judgement. Management of SIR is currently addressing its financial requirements and the details of certain financial and non-financial covenants within the Credit Agreement with the Lender. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, in an amount sufficient to fund SIR's needs.

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

- 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,
- the ability for SIR to obtain necessary financing through a renewal of its Credit Agreement,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance, including the Canada Emergency Wage Subsidy and Canada Emergency Rent Subsidy,
- business interruption 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, and
- the type and impact of continued government mandated pandemic-related operating regulations.

Reduced services and restaurant closures will continue to result in material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast doubt on the Partnership's ability to continue as a going concern. These audited financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Partnership be unable to continue as a going concern. Such adjustments could be material.

2 Basis of presentation

The Partnership prepares its financial statements in accordance with IFRS.

3 Summary of critical accounting estimates and judgements

The accounting policies applied in these financial statements are as follows:

Basis of measurement

The financial statements have been prepared under the historical cost convention.

Use of estimates

The preparation of these 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 financial statements. Actual results could differ materially from those estimates in the near term.

Revenue recognition

Revenues include Royalty income equal to 6% of revenue of SIR's restaurants in Canada that are subject to the Licence and Royalty Agreement and a Make-Whole payment (if applicable) and is recognized on an accrual basis.

Financial instruments

Financial assets and liabilities are recognized when the Partnership 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 Partnership has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement 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.

Under IFRS 9, 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 Partnership 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 bank overdraft, 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.

Bank overdraft

Bank overdraft arises when uncashed cheques issued exceed the cash balances and are an integral part of the Partnership's cash management policies. Accordingly, for the purpose of the statement of cash flows, bank overdraft is included in the movement of cash.

Distributions

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

Intangible assets

The SIR Rights are intangible assets with indefinite lives. In accordance with the requirements of International Accounting Standard (IAS) 38, Intangible Assets, the SIR Rights are an indefinite life intangible asset and are not amortized. The Partnership reviews the SIR Rights for impairment annually or whenever events or circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the asset, as determined by management). Impairment is recognized when the recoverable amount of the intangible assets is lower than the carrying value.

The Partnership evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Income taxes

The Partnership is not required to pay tax on its earnings as its taxable income is allocated to the partners based on the provisions of the Partnership Agreement. The partners will be liable for income taxes, if any; accordingly, no provision for income taxes has been recorded in these financial statements.

4 Intangible assets

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
SIR Rights - Beginning of year	104,418,635	100,432,371
Adjustment to Royalty Pooled Restaurants	(3,493,096)	3,986,264
Provision for Impairment	(54,225,549)	-
SIR Rights - End of year	46,699,989	104,418,635

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 December 31, 2020 of $54,225,549.

In assessing the intangible assets for impairment at December 31, 2020 and 2019, the aggregate recoverable amount of the intangible assets was compared to its carrying amounts. The recoverable amount has been determined by management based on fair value less costs to sell using a four-year discounted cash flow considering a terminal value. The key assumptions included the following:

	As at December 31, 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%

A 1% decrease in the forecasted sales of Royalty Pooled Restaurants will result in an additional impairment of $400,000. A 0.25% increase in the discount rate will result in an additional impairment of $80,000.

On January 1, 2021, one new SIR Restaurant was added (January 1, 2020 – one new SIR Restaurant was added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement (note 4).

The tax basis of the intangible assets as at December 31, 2020 was $1,740,861 (2019 - $1,871,893).

5 Partners' interest

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

		As at December 31, 2020		As at December 31, 2019	
Class	**Authorized**	**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
			46,490,972		104,418,645

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, 2021, one new SIR Restaurant was added (January 1, 2020 – one new SIR Restaurant was added) to 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, 2021 (January 1, 2020 – one new SIR Restaurants), as well as the Second Incremental Adjustment for one new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 (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 one (January 1, 2020 – three) SIR Restaurants during 2020. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 153,201 Class B GP Units into 153,201 Class A GP Units (January 1, 2020 – SIR returned 395,899 Class A GP Units for 395,899 Class B GP Units) on January 1, 2021 decreasing the value of the SIR Rights by $673,766 (January 1, 2020 – reducing the value of the SIR Rights by $3,493,096).

In addition, the revenues of the one (January 1, 2019 – two) new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2020 was less than 80% of the Initial Adjustment's estimated revenue (January 1, 2019 – revenue of the two new SIR Restaurants was 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 $8,858 in December 2020 and paid in January 2021 (a special conversion refund of $23,240 in December 2019 and paid in January 2020). Make-Whole Payments of $nil (year ended December 31, 2019 - $267,573) have been recorded in Royalty income in the statement of earnings and comprehensive income of the Partnership for the year ended December 31, 2020.

Effective January 1, 2021, SIR's residual interest in the Partnership is 19.05%.

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.

6 Financial instruments

Classification

As at December 31, 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	
	Classification	As at December 31, 2020 $	As at December 31, 2019 $
Cash	Financial assets at amortized cost	2,544	629,257
Amounts due from related parties	Financial assets at amortized cost	6,872,036	4,690,585
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	115,842	215,574
Amounts due to related parties	Financial liabilities at amortized cost	6,989,533	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.

7 Related party balances and transactions

	As at December 31, 2020 $	As at December 31, 2019 $
SIR Corp.		
Royalties receivable	2,450,634	771,820
Advances receivable	741,095	574,508
	3,191,729	1,346,328
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	3,680,307	3,344,257
Amounts due from related parties	6,872,036	4,690,585
Distributions payable to SIR Corp	3,850,297	1,387,146
Distributions payable to SIR Royalty Income Fund and its subsidiaries	3,139,236	3,733,280
Amounts due to related parties	6,989,533	5,120,426

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 as part of the conditions required by SIR's senior lender to grant SIR a series of waiver and amending agreements under its Credit Agreement and in order to provide SIR with financial support. During the year ended December 31, 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 40% was applied to the royalties receivable at December 31, 2020.

	As at December 31, 2020 $
SIR Corp.	
Royalties receivable	4,223,741
Provision for impairment	(1,773,107)
	2,450,634

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

During the year ended December 31, 2020, the Partnership earned royalty income of $7,200,769 from SIR (year ended December 31, 2019 - $17,327,570). 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 one Jack Astor's restaurants during the year ended December 31, 2020, Make-Whole Payments of $nil ($267,573 as a result of the permanent closure of two SIR Restaurant during the year ended December 31, 2019) have been recorded in Royalty income in the statement of earnings and comprehensive income for the year ended December 31, 2020.

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, 2020, the Partnership provided these services to the Fund and the Trust for consideration of $24,000 (year ended December 31, 2019 - $24,000), which was the amount of consideration agreed to by the related parties.

8 Capital management

The Partnership's issued capital consists of Class A LP Units, Ordinary LP Units, Ordinary GP Units, Class A GP Units, Class B GP Units and Class C GP Units. The objectives in managing the capital are to safeguard the Partnership's ability to continue as a going concern and to administer the affairs of the Fund, subject to the terms of the Partnership Agreement and the Licence and Royalty Agreement. There are no restrictions in these agreements with respect to the issuance of additional units or debt. The Partnership has no third party debt or bank lines of credit. The Partnership had no capital expenditures during the year ended December 31, 2020 and, by its nature, is not expected to have significant capital expenditures in the future.

SIR has a Credit Agreement, which requires the Partnership and the Fund to subordinate and postpone their claims against SIR to the claims of the bank if a default or event of default were to occur (note 8).

9 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 and July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020 and December 31, 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 $45,910,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $19,660,000 revolving term loan (Credit Facility 2) and a $6,250,000 guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-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, 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. 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 re-borrowed at any time during the term of the Credit Agreement.

Credit Facility 2 bears interest at the prime rate plus 3.25% and/or the bankers' acceptance rate plus 4.25%. Under the Credit Agreement, subsequent advances on Credit Facility 2 may be requested (subject to availability and lender approval), in minimum multiples of $1,000,000, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021.

The EDC-Guaranteed Facility bears interest at the prime rate plus 3.5%. The EDC-Guaranteed Facility is a 364-day revolving-term credit facility and can be extended at the Lender's sole discretion by a further 12 months. A standby fee of 0.90% is charged on the undrawn balance of 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 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 pandemic 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. At the time of filing SIR Corp.'s year ended August 30, 2020, SIR was in breach of these two new financial convenants. 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.

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.

On December 31, 2020 SIR and its Lender entered into a sixth amending agreement to its Credit Agreement. The Sixth Amending Agreement provides for the following:

- an extension of the waivers of certain of the previously granted anticipated covenant breaches and events of default until March 31, 2021 (the “Waiver Period”),
- extends the period of the deferral until the maturity date of $1.0 million in principal payments previously scheduled between December 31, 2020 to January 31, 2021, and
- allowance for the potential additions of up to an additional $375,000 in subordinated debt made available by Investissement Québec (“IQ”) to SIR pursuant to IQ’s Concerted Temporary Action Program for Businesses (“PACTE”) on terms and conditions satisfactory to the Lender.

On December 31, 2020, the Fund and the Partnership entered into an acknowledgement, waiver and extension agreement with the Lender and SIR, acknowledging, among other things:

- receipt of a copy of the Sixth Amending Agreement,
- 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,
- the extension of the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from December 31, 2020 to March 31, 2021,
- the recognition of a potential new PACTE Loan of up to $375,000, and
- the waiver of any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until March 31, 2021.

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.

10 Net change in non-cash working capital items

	Year ended December 31, 2020 $	Year ended December 31, 2019 $
Prepaid expenses and other assets	(5,610)	(666)
Amounts due from related parties	(2,181,451)	793,453
Accounts payable and accrued liabilities	(99,732)	(15,564)
Provision for impairment against royalties receivable from SIR Corp.	(1,773,107)	-
	(4,059,900)	777,223

11 Subsequent events

Effective February 9, 2021, SIR will permanently close three restaurants located at the corner of Yonge and Gerrard in downtown Toronto. The three restaurants to be closed include a Scaddabush Italian Kitchen & Bar ("Scaddabush"), Reds Midtown Tavern and a Duke's Refresher & Bar ("Duke's"). The Scaddabush and Reds locations are part of the Royalty Pool. SIR has received consideration of $6,000,000 to early terminate the lease agreements.

Due to increasing COVID-19 case counts in Ontario, lockdowns remained in effect from December 26, 2020 until February 10, 2021, whereby the Waterloo region, where SIR has one restaurant, was moved into Green/Prevent zone within the provincial government's COVID-19 framework. Effective February 16, 2021, additional regions within Ontario 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)
Grey/Lockdown • no indoor dining	• Peel (6) • Toronto (16) Effective March 29, 2021 • Hamilton (2)
Red/Control • indoor dining capacity: 10 • maximum number of guests per table: 4	Effective February 16, 2021 • Halton (3) • Durham (2) • Simcoe-Muskoka (1) Effective March 8, 2021 • York (5) • Niagara (2) Effective March 30, 2021 • London Middlesex (3) • Ottawa (3)
Orange/Restrict	

• indoor dining capacity: 50 • maximum number of guests per table: 4	
Yellow/Protect • maximum number of guests per table: 6	Effective March 22, 2021 • Waterloo (1)
Green/Prevent • maximum number of guests per table: 10	

Effective February 15, 2021, certain locations in Quebec moved into "maximum alert" and dining rooms were closed; only takeout and delivery are permitted.

Effective March 5, 2021, the province of Nova Scotia, permitted the reopening of dining rooms in the Halifax Regional Municipality, where SIR has two restaurants.

Effective March 27, 2021, the province of Newfoundland, where SIR has one restaurant, relaxed restrictions for indoor dining.

Effective March 31, 2021, SIR will permanently close the Canyon Creek location in Vaughan, Ontario.

On March 31, 2021, SIR and its Lender entered into the Seventh Amending Agreement to its Credit Agreement. The Seventh Amending Agreement provides for the following:

- an extension of the waivers of certain of the previously granted anticipated covenant breaches and events of default until July 6, 2021 (the "Seventh Amending Agreement Waiver Period"),
- waiving, for the Seventh Amending Agreement Waiver Period which now extends to the July 6, 2021 Maturity Date, the financial covenants in the Credit Agreement,
- during the Seventh Amending Agreement Waiver Period which now extends to the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a minimum quarterly EBITDA amount,
- waiver of the minimum quarterly EBITDA covenant amount for SIR's fiscal 2021 second quarter
- the addition of a new $6,250,000 million Business Development Bank of Canada ("BDC") guaranteed Highly Affected Sectors Credit Availability Program ("HASCAP") facility (the "BDC-Guaranteed Facility") to the Credit Agreement. The BDC-Guaranteed Facility is a 10 year term credit facility, with a one year principal payment moratorium, bearing fixed rate interest of 4%,
- consents to SIR making a distribution to the Partnership or the Fund in an amount up to $1,000,000 for previously deferred royalty payments and/or payments of interest on the SIR Loan (the "Anticipated Fund Distribution"),
- the Fund and the Partnership were required to acknowledge, consent and subordinate to the BDC-Guaranteed Facility, and
- the Fund and the Partnership were required to extend their agreement to defer payments by SIR of interest on the SIR Loan and royalty payments from April 1, 2021 until July 6, 2021.

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

On March 31, 2021, the Fund and the Partnership entered into a consent agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Seventh Amending Agreement,
- consent to the new BDC-Guaranteed Facility of $6,250,000,
- 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 BDC-Guaranteed Facility constitutes Permitted Debt (as such term is defined in the SIR Loan Agreement).
- On March 31, 2021, the Fund and the Partnership entered into a waiver and extension agreement with the Lender and SIR, acknowledging, among other things:
- receipt of a copy of the Seventh Amending Agreement,
- the extension of the period of the deferral of interest on the SIR Loan to the Fund and royalties to the Partnership from March 31, 2021 to July 6, 2021, and
- the waiver of any and all existing breaches of covenants and events of default under the various agreements between SIR, the Fund, and the Partnership until July 6, 2021.

In order to provide SIR with financial support, including SIR securing necessary waivers and extension from the Lender, SIR gaining access to additional needed debt facilities, along with the additional consideration of the $1,000,000 Anticipated Fund Distribution, the Partnership deferred the collection of restaurant royalties and the Fund deferred the collection of interest on the SIR Loan from SIR until July 6, 2021. Failure to obtain the waiver extensions from the Lender would have materially and adversely affected SIR, the Fund and the Partnership. The long-term viability of SIR is in the best interests of the Fund and the Partnership.

The Company'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 the Company 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 are expected to continue to impact sales at SIR restaurants. As part of the conditions required by SIR's senior lender to grant SIR a series of waiver and amending agreements under its Credit Agreement, the Partnership has deferred the collection of restaurant royalties and the Fund has deferred the collection of interest on interest on the SIR Loan from SIR until July 6, 2021.