SIR Royalty Limited Partnership

Condensed Interim Financial Statements
(Unaudited)
For the three-month and six-month periods ended June 30, 2021 and June 30, 2020

SIR Royalty Limited Partnership

Condensed Interim Statements of Financial Position

(Unaudited)

	June 30, 2021 $	December 31, 2020 $
Assets		
Current assets		
Cash	582,218	2,544
Prepaid expenses and other assets	7,259	21,778
Amounts due from related parties (note 6)	8,602,668	6,872,036
	9,192,145	6,896,358
Intangible assets (note 3)	46,699,989	46,699,989
	55,892,134	53,596,347
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	166,764	115,842
Amounts due to related parties (note 6)	9,234,398	6,989,533
	9,401,162	7,105,375
Partners' Interest (note 4)	46,490,972	46,490,972
	55,892,134	53,596,347

Going concern (note 1)

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 June 30, 2021 $	Three-month period ended June 30, 2020 $	Six-month period ended June 30, 2021 $	Six-month period ended June 30, 2020 $
Revenues				
Royalty income (notes 1 and 6)	1,222,643	571,002	2,154,795	3,589,700
Other income (notes 1 and 6)	68,463	-	68,463	-
Administration fee (note 6)	6,000	6,000	12,000	12,000
	1,297,106	577,002	2,235,258	3,601,700
Expenses				
General and administrative	52,368	21,272	89,697	44,767
Impairment (recovery) of financial and intangible assets	(202,944)	-	33,709	40,525,539
Net earnings (loss) and comprehensive income (loss) for the period	1,447,682	555,730	2,111,852	(36,968,606)

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 six-month periods ended June 30, 2021 and June 30, 2020

	Number of units (note 4)	Balance - January 1, 2021 $	Units (returned) issued $ (note 4)	Net earnings for the period $	Distributions declared $	Balance – June 30, 2021 $
Ordinary LP units	5,356,667	-	-	-	-	-
Class A LP units	3,018,900	6,490,912	-	412,475	(412,475)	6,490,912
Ordinary GP units	100	50	-	30	(30)	50
Class A GP units	1,971,552	-	-	199,341	(199,341)	-
Class B GP units	95,757,934	10	-	6	(6)	10
Class C GP units	4,000,000	40,000,000	-	1,500,000	(1,500,000)	40,000,000
		46,490,972	-	2,111,852	(2,111,852)	46,490,972

	Number of units (note 4)	Balance - January 1, 2020 $	Units (returned) issued $ (note 4)	Net (loss) earnings for the period $	Distributions declared $	Balance – June 30, 2020 $
Ordinary LP units	5,356,667	7,633,570	-	(7,221,793)	(411,777)	-
Class A LP units	3,018,900	27,983,375	-	(6,780,060)	(1,053,365)	20,149,950
Ordinary GP units	100	11	-	69	(30)	50
Class A GP units	1,818,351	28,801,688	(3,493,096)	(24,716,837)	(591,755)	-
Class B GP units	95,757,934	1	-	15	(6)	10
Class C GP units	4,000,000	40,000,000	-	1,750,000	(1,500,000)	40,250,000
		104,418,645	(3,493,096)	(36,968,606)	(3,556,933)	60,400,010

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

SIR Royalty Limited Partnership

Condensed Interim Statements of Cash Flows

(Unaudited)

	Six-month period ended June 30, 2021 $	Six-month period ended June 30, 2020 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	2,111,852	(36,968,606)
Net change in non-cash working capital items (note 8)	(1,565,887)	(206,832)
Impairment of financial and intangible assets	33,709	40,525,539
	579,674	3,350,101
Financing activities		
Distributions paid	-	(3,663,103)
Change in cash during the period	579,674	(313,002)
Cash - Beginning of period	2,544	629,257
Cash - End of period	582,218	316,255

The accompanying notes are an integral part of these condensed interim 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 condensed interim financial statements were approved by the Board of Directors of SIR GP Inc. on August 12, 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. Due to government mandated business restrictions in response to the pandemic, 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 at SIR restaurants by region. Government mandated restrictions were heightened again in October, November, and December in 2020. These restrictions have continued in 2021. Government 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.

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.

Effective January 8, 2021, SIR permanently closed the Canyon Creek locations at the Square One shopping centre in Mississauga, Ontario and in Scarborough, Ontario. These locations were part of the Royalty Pool.

Effective February 9, 2021, SIR permanently closed three restaurants located at the corner of Yonge and Gerrard in downtown Toronto. The three restaurants include a Scaddabush Italian Kitchen & Bar ("Scaddabush"), Reds Midtown Tavern and a Duke's Refresher & Bar ("Duke's"). The Scaddabush and Reds locations were part of the Royalty Pool.

Effective March 31, 2021, SIR permanently closed the Canyon Creek location in Vaughan, Ontario. This location was part of the Royalty Pool.

Effective April 8, 2021, the Ontario provincial government declared a state of emergency and a province wide stay-at-home order was issued. All regions were placed into lockdown and as a result, SIR's dining rooms, bars and patios in Ontario were to continue to be closed until at least June 2, 2021. SIR continues to offer take-out and delivery services at certain locations.

On May 20, 2021, the Ontario government announced a province-wide "Roadmap to Reopen". The three-step plan allowed restaurants to reopen for limited capacity (four guests per table) outdoor dining in Step 1 commencing on June 11, 2021. Step 2 which allowed for a slight increase in outdoor capacity to a maximum of six guests per table commenced on June 16, 2021. Step 3 was entered into subsequent to June 30, 2021 on July 16, 2021 and allowed for indoor dining and patio dining with social distancing, but no other extraordinary capacity restrictions. The timing for exiting Step 3 is not expected to occur until at least 21 days after July 16, 2021. No details have been announced regarding the changes affecting the restaurant business that would coincide with Ontario exiting Step 3.

Effective May 28, 2021, the province of Quebec permitted the reopening of dining on patios in all regions, where SIR has four restaurants. Effective May 31, 2021 (where SIR has two restaurants) and June 7, 2021 (where SIR has two restaurants), respectively, the province permitted the reopening of indoor dining in certain locations.

Effective June 2, 2021, the province of Nova Scotia permitted the reopening of dining on patios in the Halifax Regional Municipality, where SIR has two restaurants. Effective June 16, 2021, the province permitted the reopening of indoor dining (10 guests per table) and effective June 30, 2021, the province further extended table capacity and service hours. Effective July 14, 2021 Nova Scotia moved into Phase 3 of its reopening plan permitting restaurants to return to regular hours of operation while all other COVID-19 operational requirements, including physical distancing between tables, remain in place.

Going concern

The condensed interim 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 may 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 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 negotiated an extension of its Credit Agreement with its Lender until July 6, 2022. This extension is intended to address SIR's financial requirements and makes accommodations for certain financial and non-financial covenant requirements. 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 fully 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. During the 53-week year ended August 30, 2020, SIR recognized government assistance through the Canada Emergency Wage Subsidy of $11,140,554. Of this amount, $9,892,500 was recognized as a reduction to costs of corporate restaurant operations and $1,248,054 was recognized as a reduction to corporate costs. For the 36-week period ended May 9, 2021, SIR recognized government assistance through the Canada Emergency Wage Subsidy of $15,806,052, the Canada Emergency Rent Subsidy of $2,642,908 and other government subsidies of $1,045,874. Of these amounts, $15,156,329 was recognized as a reduction to costs of corporate restaurant operations and $4,338,505 was recognized as a reduction to corporate costs.
- 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 unaudited condensed interim 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 condensed interim financial statements in accordance with International Financial Reporting Standards (IFRS), applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The disclosures contained in these interim financial statements do not include all requirements of IFRS for annual financial statements and should be read in conjunction with the 2020 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 2020 audited annual financial statements.

3 Intangible assets

	Three-month period ended June 30, 2021 $	Year ended December 31, 2020 $
SIR Rights - Beginning of period	46,699,989	104,418,635
Adjustment to Royalty Pooled Restaurants	-	(3,493,097)
Provision for Impairment	-	(54,225,549)
SIR Rights - End of period	46,699,989	46,699,989

In assessing the intangible assets for impairment at June 30, 2021 and December 31, 2020, the aggregate recoverable amount of the intangible assets was compared to its carrying amount. 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 June 30, 2021	As at December 31, 2020
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%	22.5% to 26.3%

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

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 adjustment to Royalty Pooled Restaurants whereby 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 resulted in a $nil impact to the SIR Rights value as the Class A and B GP Units have a $nil value.

4 Partners' interest

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

		As at June 30, 2021		As at December 31, 2020	
Class	**Authorized**	**Issued**	**Amount $**	**Issued**	**Amount $**
Class A LP Units	Unlimited	3,018,900	6,490,012	3,018,900	6,490,912
Class C LP Units	Unlimited	-	-	-	-
Ordinary LP Units	Unlimited	5,356,667	-	5,356,667	-
Ordinary GP Units	Unlimited	100	50	100	50
Class A GP Units (note 3)	Unlimited	1,971,552	-	1,818,351	-
Class B GP Units (note 3)	Unlimited	95,604,733	10	95,757,934	10
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			46,490,972		46,490,972

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 with a $nil impact to the SIR Rights as the Class A and B GP Units have a $nil value (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.

5 Financial instruments

Classification

As at June 30, 2021 and December 31, 2020, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
	Classification	As at June 30, 2021 $	As at December 31, 2020 $
Cash	Financial assets at amortized cost	582,218	2,544
Amounts due from related parties	Financial assets at amortized cost	8,602,668	6,872,036
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	166,764	115,842
Amounts due to related parties	Financial liabilities at amortized cost	9,234,398	6,989,533

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.

6 Related party balances and transactions

	As at June 30, 2021 $	As at December 31, 2020 $
SIR Corp.		
Royalties receivable	3,890,183	2,450,634
Advances receivable	805,855	741,095
	4,696,038	3,191,729
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	3,906,630	3,680,307
Amounts due from related parties	8,602,668	6,872,036
Distributions payable to SIR Corp	5,682,657	3,850,297
Distributions payable to SIR Royalty Income Fund and its subsidiaries	3,551,741	3,139,236
Amounts due to related parties	9,234,398	6,989,533

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 three-month and six-month periods ended June 30, 2021, the Partnership has recognized an impairment provision (recovery) of ($202,944) and $33,709 on the royalties receivable from SIR, based on management's assessment of the SIR-specific risk. As at June 30, 2021, the Partnership has recognized a cumulative impairment loss on the royalties receivable from SIR of $1,806,816 (December 31, 2020 – $1,773,107). A rate of 40% was applied to the royalties receivable.

Impairment losses on royalties receivable are presented as net impairment losses within the net earnings (loss) and comprehensive income (loss) on the Statement of Earnings (Loss) and Comprehensive Income (Loss) and within net amounts due from related parties on the Statement of Financial Position.

During the three-month and six-month periods ended June 30, 2021, the Partnership earned royalty income of $1,222,643 and $2,154,975, respectively, from SIR (three-month and six-month periods ended June 30, 2020 - $571,002 and $3,589,700, 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 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 three-month period ended March 31, 2021.

During fiscal 2020, SIR began testing a new takeout and delivery concept called Renegade Chicken. Renegade Chicken is a ghost kitchen concept that, while operated within certain Jack Astor's and Duke's Refresher locations, was specifically designed and marketed as distinctly different from Jack Astor's. The test concluded as of May 31, 2021. As of June 1, 2021, Renegade Chicken was no longer offered through the Jack Astor's kitchens. While the Fund has no ownership interest in the Renegade Chicken trademark, SIR made a voluntary payment to the Fund in an amount equal to 6% of the revenues earned by the Renegade Chicken operation. As at May 31, 2021, the total revenues earned by the Renegade Chicken operation were $1,141,051. Accordingly, the Partnership earned other income of $68,463 during the three-month and six-month periods ended June 30, 2021 (three-month and six-month periods ended June 30, 2020 – $nil), from SIR.

The Partnership has entered into an arrangement with the Fund and the Trust whereby the Partnership will provide or arrange for the provision of services required in the administration of the Fund and the Trust. The Partnership has arranged for these services to be provided by SIR GP Inc. in its capacity as the Managing General Partner, or SIR as the General Partner. SIR, on behalf of SIR GP Inc., also provides services to the Partnership for its administration. . For the three-month and six-month periods ended June 30, 2021, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 and $12,000, respectively (three-month and six-month periods ended June 30, 2020 - $6,000 and $12,000, 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 and July 6, 2018, April 1, 2020, June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021 and May 31, 2021 with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of $52,160,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), a $19,660,000 revolving term loan (Credit Facility 2), a $6,250,000 guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") (EDC-Guaranteed Facility) and a $6,250,000 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, 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, 2022. 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, 2022.

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 BDC-Guaranteed Facility bears interest at a fixed rate of 4%. The BDC-Guaranteed Facility is a 10 year revolving-term credit facility, with a one year principal payment moratorium and can be extended at the Lender's sole discretion by a further 12 months.

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 covenants. 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.

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.

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.

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.

On May 31, 2021, SIR and its Lender entered into the Eighth Amending Agreement to its Credit Agreement. The Eighth 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, 2022 (the "Eighth Amending Agreement Waiver Period"),
- waiving, for the Eighth Amending Agreement Waiver Period which now extends to the July 6, 2022 Maturity Date, the financial covenants in the Credit Agreement,
- during the Eighth Amending Agreement Waiver Period which now extends to the Maturity Date, the two financial covenants in the Credit Agreement are replaced by a Cumulative Minimum EBITDA Covenant,
- SIR will be allowed to miss quarterly projections by up to $3.5 million cumulatively prior to July 6, 2022.
- waiver of the minimum quarterly EBITDA covenant amount for SIR's fiscal 2021 third quarter,
- the definition of EBITDA has been amended back to the definition in the original credit agreement.
- royalty payments on current sales to the Partnership and Interest on the SIR Loan are to recommence effective July 7, 2021,
- SIR will be entitled to begin repaying deferred royalty payments to the Partnership and interest on the SIR Loan to the Fund under the condition that at least 25 restaurants have, for six consecutive weeks, been allowed the use of at least 50 indoor dining seats and the use of their patios (with social distancing). The repayments, which on a net basis amount to approximately $4.8 million as of May 9, 2021, are expected to be made in equal monthly installments such that the deferred amounts are targeted, absent and defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022.

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

On May 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 Eighth 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,

On May 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 Eighth 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 July 6, 2021 to July 6, 2022, 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, 2022.
- as a result of the Acknowledgment Agreement, the Lender consented to the resumption of regular payments by SIR to the Fund and the Partnership.

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

- 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.
- 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.
- 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 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.

8 Net change in non-cash working capital items

	Six-month period ended June 30, 2021 $	Six-month period ended June 30, 2020 $
Prepaid expenses and other assets	14,519	10,779
Amounts due from related parties	(1,631,328)	(339,642)
Accounts payable and accrued liabilities	50,922	122,031
	(1,565,887)	(206,832)

9 Subsequent events

Effective July 7, 2021, royalty payments on current sales to the Partnership and Interest on the SIR Loan are to recommence in accordance with the Eighth Amending Agreement of SIR's Credit Agreement.

Effective July 15, 2021, the Trustees of the Fund have approved the resumption of monthly unitholder distributions. The initial monthly distribution under the resumption will be in the amount of $0.07 per Fund Unit and will payable on July 30, 2021 to unitholders of record on July 22, 2021 and will be funded by a combination of the royalty payment for SIR's four-week operating period ended July 4, 2021, recent interest on the SIR Loan and a portion of the $1.0 million payment from SIR that was paid in April 2021 for previously deferred royalties and interest of the SIR Loan. The Fund Trustees will continue to monitor the Fund's distributable cash as sales of SIR and the resulting royalty payments increase, provided that restaurant dining rooms are permitted to commence re-opening and business restrictions on restaurants are reduced or removed starting July 16, 2021 and remain open thereafter, with a view to adjusting the level of unitholder distributions accordingly.

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, 2022.