

# **SIR Royalty Limited Partnership**

Condensed Interim Financial Statements  
(Unaudited)

**For the three-month periods ended  
March 31, 2022 and March 31, 2021**

This document is being filed with the Canadian securities regulatory authorities via [www.sedar.com](http://www.sedar.com) by and/or on behalf of, and with the approval of, SIR Corp. While it is located under the SIR Royalty Income Fund's issuer profile on [www.sedar.com](http://www.sedar.com) as a matter of convenience to investors in the SIR Royalty Income Fund, it is not being filed by or on behalf of, or with the approval, authorization, acquiescence or permission of, (a) the SIR Royalty Income Fund or any of its trustees or officers, and (b) the SIR Holdings Trust or any of its trustees or officers. None of them have approved, authorized, permitted or acquiesced with respect to the filing or contents hereof.

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

---

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	487,757	40,684
Prepaid expenses and other assets	14,083	21,124
Amounts due from related parties (note 6)	5,905,944	6,815,708
	<u>6,407,784</u>	<u>6,877,516</u>
<b>Intangible assets</b> (note 3)	46,699,990	46,699,990
	<u>53,107,774</u>	<u>53,577,506</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	386,450	305,867
Amounts due to related parties (note 6)	6,230,352	6,780,667
	<u>6,616,802</u>	<u>7,086,534</u>
<b>Partners' interest</b> (note 4)	46,490,972	46,490,972
	<u>53,107,774</u>	<u>53,577,506</u>
<b>Going concern</b> (note 1)		

**Approved by the Directors of SIR GP**

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

# SIR Royalty Limited Partnership

## Condensed Interim Statements of Earnings and Comprehensive Income

(Unaudited)

---

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
<b>Revenues</b>		
Royalty income (notes 1 and 6)	2,348,092	932,152
Administration fee (note 6)	6,000	6,000
	<hr/>	<hr/>
	2,354,092	938,152
<b>Expenses</b>		
General and administrative	18,669	37,329
(Recovery of) Impairment loss of financial assets	(747,278)	236,653
	<hr/>	<hr/>
<b>Net earnings and comprehensive income for the period</b>	<hr/> <b>3,082,701</b>	<hr/> <b>664,170</b>

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 three-month periods ended March 31, 2022 and March 31, 2021

	Number of units	Balance - January 1, 2022 \$	Units issued \$	Net earnings for the period \$	Distributions declared \$	Balance - March 31, 2022 \$
	(note 4)					
Ordinary LP units	5,356,667	-	-	979,121	(979,121)	-
Class A LP units	3,018,900	6,490,912	-	962,670	(962,670)	6,490,912
Ordinary GP units	100	50	-	15	(15)	50
Class A GP units	1,291,618	-	-	390,892	(390,892)	-
Class B GP units	96,284,667	10	-	3	(3)	10
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		46,490,972	-	3,082,701	(3,082,701)	46,490,972

	Number of units	Balance - January 1, 2021 \$	Units issued \$	Net (loss) earnings for the period \$	Distributions declared \$	Balance - March 31, 2021 \$
	(note 4)					
Ordinary LP units	5,356,667	-	-	-	-	-
Class A LP units	3,018,900	6,490,912	-	(85,830)	-	6,405,082
Ordinary GP units	100	50	-	-	-	50
Class A GP units	1,971,552	-	-	-	-	-
Class B GP units	95,604,733	10	-	-	-	10
Class C GP units	4,000,000	40,000,000	-	750,000	(750,000)	40,000,000
		46,490,972	-	664,170	(750,000)	46,405,142

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

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

---

	<b>Three-month period ended March 31, 2022 \$</b>	<b>Three-month period ended March 31, 2021 \$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net earnings for the period	3,082,701	664,170
Net change in non-cash working capital items (note 8)	1,744,666	(891,977)
(Recovery of) Impairment loss of financial assets	(747,278)	236,653
	<u>4,080,089</u>	<u>8,846</u>
<b>Financing activities</b>		
Distributions paid	<u>(3,633,016)</u>	<u>-</u>
<b>Change in cash during the period</b>	447,073	8,846
<b>Cash - Beginning of period</b>	<u>40,684</u>	<u>2,544</u>
<b>Cash - End of period</b>	<u>487,757</u>	<u>11,390</u>

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

# **SIR Royalty Limited Partnership**

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

### **1 Nature of operations, going concern 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 May 12, 2022.

#### **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**

Since the onset of the COVID-19 pandemic in March 2020 through to mid-February 2022, restaurants and bars across Canada have experienced a series of government mandated operating capacity restrictions and/or full restaurant closures, followed by periods of easing restrictions and related reopenings or partial reopening's. As of mid-March 2022, all operational restrictions have been lifted in the provinces where SIR continues to operate its restaurants, except for masking requirements in the province of Quebec. SIR continues to recover and navigate the post-pandemic environment and its effects on the current economic conditions and consumer behaviour.

The potential risk of future government mandated restaurant closures and/or increased operating capacity restrictions due to the pandemic, could further impact future sales at SIR restaurants which could create material uncertainties that may cast doubt on SIR's ability to continue as a going concern.

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

### 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 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 government mandated restaurant closures and/or increased operating capacity restrictions 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 ability of SIR to continue operating at full capacity without restrictions,
- Canadian economic conditions affecting bars and restaurants that are fully reopen,
- the ability for SIR to obtain necessary financing through a renewal of its Credit Agreement which expires on July 6, 2022,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance, including the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly extended and enacted Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the Ontario Business Costs Rebate Program. For the 24-week period ended February 13, 2022, SIR recognized government assistance through the CEWS and CRHP/THRP programs of \$7,828,000 (February 14, 2021 – CEWS program of \$10,740,000), the CERS and CRHP/THRP programs of \$2,072,000 (February 14, 2021 – CERS program of \$1,688,000) and other government subsidies of \$nil (February 14, 2021 – other subsidies of \$287,000). Of these amounts, \$9,420,000 (February 14, 2021 - \$9,946,000) was recognized as a reduction to costs of corporate restaurant operations and \$480,000 (February 14, 2021 - \$2,769,000) 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.

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

The potential for reduced services and/or restaurant closures will continue to create risk of material declines to sales at SIR restaurants. These circumstances indicate the existence of a material uncertainty that may cast significant 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 2021 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 2021 audited annual financial statements.

### 3 Intangible assets

	Three-month period ended March 31, 2022 \$	Year ended December 31, 2021 \$
SIR Rights - Beginning and end of period	46,699,989	46,699,990

In assessing the intangible assets for impairment at March 31, 2022 and December 31, 2021, 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 March 31, 2022	As at December 31, 2021
Revenue growth rates	0.0% to 3.0%	0.0% to 3.0%
Terminal growth rate	3.0%	3.0%
Discount rate	22.5% to 26.3%	22.5% to 26.3%



# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

The revenue growth rates of 0.0% to 3.0% 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 2022.

On January 1, 2022, no new SIR Restaurants were added (January 1, 2021 – one new SIR Restaurant was added) to Royalty Pooled Restaurants in accordance with the Partnership Agreement (note 4). The adjustment to the Royalty Pooled Restaurants whereby SIR converted 679,934 Class A GP Units into 679,934 Class B GP Units (January 1, 2021 – SIR converted 153,201 Class B GP Units into 153,201 Class A GP Units) on January 1, 2022 resulting 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:

Class	Authorized	Issued	As at	Issued	As at
			March 31, 2022		December 31, 2021
			Amount		Amount
			\$		\$
Class A LP Units	Unlimited	3,018,900	6,490,912	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	1,291,618	-	1,971,552	-
Class B GP Units (note 3)	Unlimited	96,284,667	10	95,604,733	10
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>46,490,972</u>		<u>46,490,972</u>

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.

# **SIR Royalty Limited Partnership**

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

### **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, 2022, no new SIR Restaurants were added (January 1, 2021 – one new SIR Restaurant was added) to the Royalty Pooled Restaurants in accordance with the Partnership Agreement. There was a Second Incremental Adjustment done for one new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2021 (January 1, 2020 – one) on January 1, 2022. As consideration for this adjustment, 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 reconversion of Class A GP Units into Class B GP Units for the permanent closure of five (January 1, 2021 – one) SIR Restaurants during 2021. The net effect of these adjustments to the Royalty Pooled Restaurants was that SIR converted 679,934 Class A GP Units into 679,934 Class B GP Units (January 1, 2021 – SIR converted 153,201 Class B GP Units into 153,201 Class A GP Units) on January 1, 2022 resulting in a \$nil impact to the SIR Rights value as the Class A and B GP Units have a \$nil value (January 1, 2021 - \$nil impact to the value of SIR Rights).

In addition, the revenues of the one (January 1, 2020 – one) new SIR Restaurant added to the Royalty Pooled Restaurants on January 1, 2021 were greater than 80% of the Initial Adjustment's estimated revenue (January 1, 2020 – revenue of one SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of \$71,780 was declared on the Class B GP Units in December 2021 and paid in January 2022 (distributions of Class A GP Units were reduced by a special conversion refund of \$8,858 in December 2020 and paid in January 2021).

Effective January 1, 2022, SIR's residual interest in the Partnership is 13.36%.

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

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's Lender has approved the resumption of current payments of royalties and interest on the SIR Loan on July 7, 2021 and a framework to enable SIR to catch up on deferred payments of royalties to the Partnership and interest on the SIR Loan to the Fund by July 6, 2022 (note 7). Having met the conditions stipulated by SIR's Lender, SIR has begun its repayment of deferred royalties and interest on the SIR Loan effective September 15, 2021. Pursuant to the Eighth Amendment under SIR's Credit Agreement, these amounts will be repaid over 10 monthly installments of \$530,330 and \$350,000, respectively. As a result, the holders of Class C GP Units are entitled to receive an additional cumulative preferential monthly cash distribution equal to \$0.087 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 March 31, 2022 and December 31, 2021, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

		Carrying and fair value	
		As at	As at
		March 31,	December 31,
		2022	2021
	Classification	\$	\$
Cash	Financial assets at amortized cost	487,757	40,684
Amounts due from related parties	Financial assets at amortized cost	5,905,944	6,815,708
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	386,451	305,867
Amounts due to related parties	Financial liabilities at amortized cost	6,230,352	6,780,667

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

### 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 March 31, 2022 \$	As at December 31, 2021 \$
Royalties receivable from SIR Corp.	1,389,955	2,510,871
Advances receivable from SIR Corp.	671,252	632,993
	<u>2,061,207</u>	<u>3,143,864</u>
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	<u>3,844,737</u>	<u>3,671,844</u>
Amounts due from related parties	<u>5,905,944</u>	<u>6,815,708</u>
Distributions payable to SIR Corp.	2,643,581	3,860,195
Distributions payable to SIR Royalty Income Fund and its subsidiaries	<u>3,586,771</u>	<u>2,920,472</u>
Amounts due to related parties	<u>6,230,352</u>	<u>6,780,667</u>

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

Pursuant to the Eighth Amendment of the Credit Agreement, the Partnership continues to receive current payments of restaurant royalties while continuing to defer the collection of previously deferred 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, in order to provide SIR with financial support. SIR has continued to repay the deferred royalties outstanding, via the stipulated monthly installments of \$530,330, to meet the repayment date of July 6, 2022. As at the three-month period ended March 31, 2022, the Partnership has recognized an impairment recovery of \$747,278 on the royalties receivable from SIR (December 31, 2021 – impairment recovery of \$99,193) based on the repayment of deferred royalties and the continuation of current royalty payments during the three-month period ended March 31, 2022. A rate of 40% was applied to the remaining royalties receivable.

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

	<b>As at March 31, 2022 \$</b>
<b>SIR Corp.</b>	
Royalties receivable	2,316,591
Provision for impairment	<u>(926,636)</u>
	<u>1,389,955</u>

Impairment recovery on royalties receivable are presented as net impairment recovery within the condensed interim statement of earnings and comprehensive income and within net amounts due from related parties on the condensed interim statement of financial position

During the three-month period ended March 31, 2022, the Partnership earned royalty income of \$2,348,092 from SIR (three-month period ended March 31, 2021 - \$932,152). 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. 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 at January 27, 2022, Renegade Chicken was approved to operate again through 21 Jack Astor's locations until March 31, 2022 at SIR's option. Two more Jack Astor's locations were added to the operation as of February 16, 2022. SIR has agreed to pay an amount equal to 6% of the revenues earned to the SIR Royalty Limited Partnership. The trial was initially scheduled to continue until March 31, 2022, at SIR's option. Effective March 29, 2022, SIR opted to extend the trial until August 28, 2022, but it will reduce the number of Jack Astor's locations supporting the trial to eight locations. In exchange, SIR will continue to pay 6% of the revenues arising therefrom to the Partnership.

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 period ended March 31, 2022, the Partnership provided these services to the Fund and the Trust for consideration of \$6,000 (three-month period ended March 31, 2021 - \$6,000), 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 Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

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 \$48,606,000 consisting of a \$20,000,000 revolving term credit facility (Credit Facility 1), a \$16,106,000 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 reborrowed 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. 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 will be 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

# SIR Royalty Limited Partnership

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR will have the right, acting cooperatively, to reduce payments of Royalties and/or interest on the SIR Loan by up to 50% without triggering a cross default under the Credit Agreement for a period of up to nine consecutive months. SIR and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and SIR and its shareholders in exchange for the subordinating parties not demanding repayment or enforcing security as a result of any such related party obligation default. The Intercreditor Agreement also contains various other typical covenants of the Fund and the Partnership in which they are compliant.

On May 3, 2020, the end of SIR's third quarter, SIR was in breach of the covenants in the SIR Loan Agreement and the financial covenants in its Credit Agreement. At the time of filing SIR Corp.'s fiscal 2020 third quarter results on July 30, 2020, SIR was in breach of its financial and non-financial covenants as outlined in its credit agreement with the Lender as a result of the impact of the COVID-19 outbreak on its operations. As part of the fourth amending agreement with the Lender, the two financial covenants in the Credit Agreement were 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. Through a series of amending agreements (Fourth through to Eighth), SIR's Management continued to work closely with its Lender for guidance and support during the 52-week period ended August 29, 2021 and to date.

On May 31, 2021, SIR and its Lender entered into the most recent, 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 \$3,500,000 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, and
- 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). Having met the conditions stipulated by SIR's Lender on August 27, 2021, SIR has begun its repayment of deferred royalties to the Partnership and interest on the SIR Loan to the Fund commencing September 15, 2021. The repayments of the deferred interest on the SIR Loan, which on a net basis amount to approximately \$3,500,000 as of August 31, 2021, are expected to be made in 10 equal monthly installments of \$350,000 such that the deferred amounts are targeted, absent any defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022. The repayments of the deferred royalties, which on a net basis amount to approximately \$5,303,295 as of August 31, 2021, are expected to be made in 10 equal monthly installments of \$530,330 such that the deferred amounts are targeted, absent any defaults occurring, to be fully repaid by the Credit Facility maturity date of July 6, 2022.

# **SIR Royalty Limited Partnership**

## Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

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, and
- that none of: entering the agreement, borrowing under the agreement, or performing any of the obligations under the agreement shall breach any of the terms or constitute an event of default under any of the Fund's or the Partnership's existing agreements with 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,
- 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, and
- 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:

- SIR's ability to remain operating at full capacity in the near future,
- Canadian economic conditions affecting bars and restaurants that are fully open,
- the ability for SIR to obtain necessary financing through renewal of its Credit Agreement which expires on July 6, 2022,
- the availability of credit under SIR's current Credit Agreement or other financing sources,
- SIR's eligibility for continued government assistance through the Canada Recovery Hiring Program ("CRHP") including the additional stream of the support via the Tourism and Hospitality Recovery Program ("THRP") and the Ontario Business Costs Rebate Program,
- the collectability or utilization of business interruption or other insurance coverage, and
- SIR's ability to negotiate longer term extended credit terms from its suppliers, including negotiating deferrals of rent obligations over the terms of its leases.

SIR 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.



# SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

March 31, 2022 and March 31, 2021

(Unaudited)

---

## 8 Net change in non-cash working capital items

	Three-month period ended March 31, 2022 \$	Three-month period ended March 31, 2021 \$
Prepaid expenses and other assets	7,041	7,259
Amounts due from related parties	1,657,042	(1,203,736)
Accounts payable and accrued liabilities	80,583	304,500
	<hr/> 1,744,666	<hr/> (891,977)