

SIR Royalty Limited Partnership

Condensed Interim Financial Statements
(Unaudited)

**For the three-month and six-month periods ended
June 30, 2022 and June 30, 2021**

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

	June 30, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash	2,194,304	40,684
Prepaid expenses and other assets	7,041	21,124
Amounts due from related parties (note 6)	5,651,149	6,815,708
	<u>7,852,494</u>	<u>6,877,516</u>
Intangible assets (note 3)	92,151,695	46,699,990
	<u>100,004,189</u>	<u>53,577,506</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	347,777	305,867
Amounts due to related parties (note 6)	7,504,707	6,780,667
	<u>7,852,484</u>	<u>7,086,534</u>
Partners' Interest (note 4)	92,151,705	46,490,972
	<u>100,004,189</u>	<u>53,577,506</u>

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 June 30, 2022 \$	Three-month period ended June 30, 2021 \$	Six-month period ended June 30, 2022 \$	Six-month period ended June 30, 2021 \$
Revenues				
Royalty income (notes 1 and 6)	4,080,524	1,222,643	6,428,616	2,154,795
Other income (notes 1 and 6)	-	68,463	-	68,463
Administration fee (note 6)	6,000	6,000	12,000	12,000
	<u>4,086,524</u>	<u>1,297,106</u>	<u>6,440,616</u>	<u>2,235,258</u>
Expenses				
General and administrative	44,849	52,368	63,518	89,697
(Recovery of) impairment loss of SIR Rights and financial assets (notes 3 and 6)	<u>(55,288,830)</u>	<u>(202,944)</u>	<u>(56,036,108)</u>	<u>33,709</u>
Net earnings and comprehensive income for the period	<u>59,330,505</u>	<u>1,447,682</u>	<u>62,413,206</u>	<u>2,111,852</u>

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, 2022 and June 30, 2021

	Number of units	Balance - January 1, 2022	Units (returned) issued	Net Earnings (loss) for the period	Distributions declared	Balance - June 30, 2022
	(note 4)	\$	\$	\$	\$	\$
			(notes 3 and 4)			
Ordinary LP units	5,356,667	-	-	10,597,157	(2,963,587)	7,633,570
Class A LP units	3,018,900	6,490,912	-	23,984,044	(2,491,581)	27,983,375
Ordinary GP units	100	50	-	(9)	(30)	11
Class A GP units	1,291,618	-	(8,773,843)	26,332,017	(1,023,426)	16,534,748
Class B GP units	96,284,667	10	-	(3)	(6)	1
Class C GP units	4,000,000	40,000,000	-	1,500,000	(1,500,000)	40,000,000
		46,490,972	(8,773,843)	62,413,206	(7,978,630)	92,151,705

	Number of units	Balance - January 1, 2021	Units (returned) issued	Net earnings for the period	Distributions declared	Balance - June 30, 2021
	(note 4)	\$	\$	\$	\$	\$
			(note 4)			
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

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, 2022	Six-month period ended June 30, 2021
	\$	\$
Cash provided by (used in)		
Operating activities		
Net earnings for the period	62,413,206	2,111,852
Net change in non-cash working capital items (note 8)	3,031,112	(1,565,887)
(Recovery of) impairment of SIR Rights and financial assets (notes 3 and 6)	<u>(56,036,108)</u>	<u>33,709</u>
	9,408,210	579,674
Financing activities		
Distributions paid	<u>(7,254,590)</u>	-
Change in cash during the period	2,153,620	579,674
Cash - Beginning of period	<u>40,684</u>	<u>2,544</u>
Cash - End of period	<u>2,194,304</u>	<u>582,218</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

June 30, 2022 and June 30, 2021

(Unaudited)

1 Nature of operations and seasonality

Nature of operations

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

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

The address of the Partnership's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The condensed interim financial statements were approved by the Board of Directors of SIR GP Inc. on August 11, 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

The COVID-19 pandemic had a negative impact on the global economic activity and consumer spending in Canada, including restaurant sales. All operational restrictions were lifted as of mid-March 2022 across provinces where SIR operates its restaurants, except for masking in the province of Quebec which was lifted in mid-May 2022. SIR continues to recover and navigate the post-pandemic environment and its effects on the current economic conditions and consumer behaviour.

SIR continued to receive government assistance through the now superseded Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") and the newly enacted Canada Recovery Hiring Program ("CRHP") including the additional stream of support via the Tourism and Hospitality Recovery Program ("THRP") as well as the Ontario Business Costs Rebate Program. For the 36-week period ended May 8, 2022, SIR recognized government assistance through the CEWS and CRHP/THRP programs of \$12,347,000 (May 9, 2021 – CEWS program of \$7,828,000), the CERS and CRHP/THRP programs of \$2,102,000 (May 9, 2021 – CERS program of \$2,072,000) and other government subsidies of \$750,000 (May 9, 2021 - \$nil). Of these amounts,

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\$14,674,000 (May 9, 2021 - \$9,420,000) was recognized as a reduction to costs of corporate restaurant operations and \$525,000 (May 9, 2021 - \$480,000) was recognized as a reduction to corporate costs.

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 June 30, 2022	Year ended December 31, 2021
	\$	\$
SIR Rights – Beginning of period	46,699,990	46,699,990
Adjustment to Royalty Pooled Restaurants	(8,773,843)	-
Reversal of provision for impairment	54,225,548	-
SIR Rights – End of period	<u>92,151,695</u>	<u>46,699,990</u>

The Partnership reviews the SIR Rights for impairment or whether there is any indication that an impairment loss recognised in prior periods, for an asset other than goodwill, may no longer exist or may have decreased. If any such indication exists, the Partnership shall estimate the recoverable amount of the SIR Rights to determine whether the carrying amount of the assets may be adjusted. 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). A reversal of previous impairment losses is recognized when the recoverable amount of the SIR Rights is higher than the carrying value. In assessing the intangible assets for impairment at June 30, 2022, 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 impairment reversal was a result of sustained and continued improvements to the revenue associated with the SIR Rights that were previously impaired.

A reversal of the previous impairments to the investment in the SIR Rights was recorded to bring the asset to its historical carrying value had the impairment loss not been recognized in prior years before any adjustments to the Royalty Pooled Restaurants. During the six-month period ended June 30, 2022, the Partnership recognized a recovery of \$54,225,548, resulting in a recovery on the Fund's investment in the Partnership of \$29,125,994.

SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

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(Unaudited)

The key assumptions included the following:

	As at June 30, 2022	As at December 31, 2021
Revenue growth rates	0.0% to 2.0%	0.0% to 3.0%
Terminal growth rate	2.0%	3.0%
Discount rate	14.9% to 16.9%	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 continue recovering 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 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 and reduced the value of the SIR Rights by \$8,100,078 (January 1, 2021 – \$nil impact to the SIR Rights value as the Class A and B GP Units had a \$nil value). The adjustments to Royalty Pooled Restaurants from January 1, 2021 and January 1, 2022, as a result of the reversal of the previous impairment to the SIR Rights, reduced the value of SIR Rights by \$8,773,843.

4 Partners' interest

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

Class	Authorized	Issued	As at June 30, 2022	As at December 31, 2021	
			Amount \$	Issued	Amount \$
Class A LP Units	Unlimited	3,018,900	27,983,375	3,018,900	6,490,912
Class C LP Units	Unlimited	-	-	-	-
Ordinary LP Units	Unlimited	5,356,667	7,633,570	5,356,667	-
Ordinary GP Units	Unlimited	100	11	100	50
Class A GP Units (note 3)	Unlimited	1,291,618	16,534,748	1,971,552	-
Class B GP Units (note 3)	Unlimited	96,284,667	1	95,604,733	10
Class C GP Units	Unlimited	4,000,000	40,000,000	4,000,000	40,000,000
			<u>92,151,705</u>		<u>46,490,972</u>

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

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(Unaudited)

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, 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 and reduced the value of the SIR

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(Unaudited)

Rights by \$8,100,078 (January 1, 2021 – \$nil impact to the SIR Rights value as the Class A and B GP Units had a \$nil value). As a result of the reversal of the previous impairment to the SIR Rights, the value of SIR Rights were reduced by \$8,773,843 of adjustments to the Royalty Pooled Restaurants from January 1, 2021 and January 1, 2022 (note 3).

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%.

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 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 began 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 were repaid over 10 monthly installments of \$530,330 and \$350,000, respectively with the final payments made on June 15, 2022. As a result, the holders of Class C GP Units were 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 were 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, 2022 and December 31, 2021, the classifications of the financial instruments, as well as their carrying and fair values, are as follows:

SIR Royalty Limited Partnership

Notes to the Condensed Interim Financial Statements

June 30, 2022 and June 30, 2021

(Unaudited)

		Carrying and fair value	
		As at	As at
		June 30,	December 31,
		2022	2021
		\$	\$
	Classification		
Cash	Financial assets at amortized cost	2,194,304	40,684
Amounts due from related parties	Financial assets at amortized cost	5,651,149	6,815,708
Accounts payable and accrued liabilities	Financial liabilities at amortized cost	347,777	305,867
Amounts due to related parties	Financial liabilities at amortized cost	7,504,707	6,780,667

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	As at
	June 30,	December 31,
	2022	2021
	\$	\$
Royalties receivable from SIR Corp.	1,101,730	2,510,871
Advances receivable from SIR Corp.	594,817	632,993
	<u>1,696,547</u>	<u>3,143,864</u>
Advances receivable from the SIR Royalty Income Fund and its subsidiaries	<u>3,954,602</u>	<u>3,671,844</u>
Amounts due from related parties	<u>5,651,149</u>	<u>6,815,708</u>
Distributions payable to SIR Corp.	1,680,052	3,860,195
Distributions payable to SIR Royalty Income Fund and its subsidiaries	<u>5,824,655</u>	<u>2,920,472</u>
Amounts due to related parties	<u>7,504,707</u>	<u>6,780,667</u>

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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 continued to receive current payments of restaurant royalties. SIR also continued to repay the deferred royalties outstanding, via the stipulated monthly installments of \$530,330, to meet the repayment date of July 6, 2022. During the three-month and six-month periods ended June 30, 2022, the Partnership recognized an impairment recovery on the royalties receivable from SIR of \$1,063,282 and \$1,810,560, respectively (December 31, 2021 – impairment recovery of \$99,193).

A rate of approximately 6.2% was applied to the royalties receivable as at June 30, 2022:

	As at June 30, 2022 \$
SIR Corp.	
Royalties receivable	1,174,112
Provision for impairment	<u>(72,382)</u>
	<u>1,101,730</u>

Impairment recovery on royalties receivable are presented as net impairment recovery within the Condensed Interim Statement of Earnings and Comprehensive Income and within the net amounts due from related parties on the Condensed Interim Statement of Financial Position.

During the three-month and six-month periods ended June 30, 2022, the Partnership earned royalty income of \$4,080,524 and \$6,428,616, respectively, from SIR (three-month and six-month periods ended June 30, 2021 - \$1,222,643 and \$2,154,975, 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. 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 reduced 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

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for its administration. For the three-month and six-month periods ended June 30, 2022, 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, 2021 - \$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, May 31, 2021 and June 16, 2022 with a Schedule I Canadian chartered bank (the Lender). The Credit Agreement between SIR and the Lender provides for a maximum principal amount of \$47,703,000 consisting of \$20,000,000 revolving term credit facility (Credit Facility 1), a \$15,319,000 revolving term loan (Credit Facility 2), a \$6,250,000 guaranteed facility with Economic Development Canada (“EDC”) through the guaranteed Business Credit Availability Program (“BCAP”) (EDC-Guaranteed Facility) and a \$6,134,000 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, 2023. 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, 2023.

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 is a 10-year term credit facility, with one year principal payment moratorium, bearing a fixed rate interest of 4%. The moratorium has elapsed and SIR has commenced repayment on this facility.

The Credit Agreement is secured by substantially all of the assets of SIR and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement. The Credit Agreement qualifies as “permitted indebtedness” within the meaning of the agreements between the Fund, the Partnership and SIR, and as a result the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against SIR to the claims of the Lender. The terms of the subordination are as contemplated in the previous agreements between the Fund, the Partnership and SIR. This subordination

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includes a subordination of the Partnership's rights under the License and Royalty Agreement between the Partnership and SIR whereby the Partnership licenses to SIR the right to use trademarks and related intellectual property in return for royalty payments based on revenues and will be effected pursuant to the terms of an Intercreditor Agreement.

Under the Intercreditor Agreement, absent any default or event of default under the Credit Agreement, ordinary payments to the Fund and the Partnership can continue and the Partnership can exercise any and all of its rights to preserve the trademarks and related intellectual property governed by the License and Royalty Agreement. However, if a default or an event of default were to occur, the Fund and the Partnership agree not to take actions on their security until the Lender has been repaid in full. However, payments by SIR, to the Fund and the Partnership, will be permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Fund, the Partnership and SIR 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 until the filing of the most recent Ninth Amending Agreement.

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 \$3,500,000 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 had begun its repayment of deferred

SIR Royalty Limited Partnership

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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.

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,
- 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.

On June 16, 2022, SIR and its Lender entered into the Ninth Amending Agreement ("Ninth Amendment") to its Credit Agreement. The Agreement provides for the following:

- extension of the Maturity Date from July 6, 2022 to July 6, 2023 of Credit Facilities 1 and 2,
- during the Ninth Amendment, the Cumulative Minimum EBITDA financial covenant has been replaced by the two original, pre-pandemic financial covenants in the Credit Agreement, which are the Fixed Charge Coverage Ratio and the Senior Leverage Ratio, and
- extension of the \$6.25 million guaranteed facility with Export Development Canada ("EDC") through the guaranteed Business Credit Availability Program ("BCAP") ("EDC-Guaranteed Facility") to the Maturity Date of the Credit Agreement – the EDC-Guaranteed Facility can be extended at the Lender's sole discretion by a further 12 months.

This extension is intended to address SIR's financial requirements, at least until the Maturity Date of July 6, 2023. There can be no assurance that borrowings will be available to SIR, or available on acceptable terms, beyond the Maturity Date, in an amount sufficient to fund SIR's needs.

On June 16, 2022, as part of the Ninth Amendment, the Fund and the Partnership entered into an acknowledgement agreement with the Lender acknowledging, among other things:

- receipt of a copy of the Ninth Amendment, and
- that none of: entering the agreement, borrowing under the agreement, or performing any if the obligations under the agreement shall breach any of the terms or constitute an event of default under any of the Fund's or the Partnership's existing agreements with the Company.

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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, 2022 \$	Six-month period ended June 30, 2021 \$
Prepaid expenses and other assets	14,083	14,519
Amounts due from related parties	2,975,119	(1,631,328)
Accounts payable and accrued liabilities	41,910	50,922
	<hr/>	<hr/>
	3,031,112	(1,565,887)
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