SIR Corp.

Condensed Interim Consolidated
Financial Statements
(Unaudited)
For the 12-week period ended
November 17, 2019
(in thousands of Canadian dollars)

SIR Corp.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	November 17, 2019 $	August 25, 2019 $
Assets		
Current assets		
Cash	5,493	3,614
Trade and other receivables (note 5(c))	8,421	8,564
Inventories	2,932	3,022
Prepaid expenses, deposits and other assets	2,270	1,430
Current portion of loans and advances	470	477
	19,586	17,107
Non-current assets		
Loans and advances	316	295
Right-of-use assets – net (notes 2(a) and 3)	115,289	-
Property and equipment (note 2(a))	47,309	49,331
Goodwill and intangible assets	5,037	5,002
	187,537	71,735
Liabilities		
Current liabilities		
Bank indebtedness (note 3)	-	3,037
Trade and other payables (note 5(a))	28,453	30,955
Current portion of long-term debt (notes 2(a) and 4)	3,362	3,194
Current portion of lease obligation (notes 2(a) and 3)	17,384	-
Current portion of provisions and other long-term liabilities (note 2(a))	5,353	4,203
Current portion of Ordinary LP Units and Class A LP Units of the Partnership (note 5(b))	8,965	11,358
	63,517	52,747
Non-current liabilities		
Long-term debt (notes 2(a) and 4)	30,094	22,297
Long-term portion of lease obligation (notes 2(a) and 3)	102,532	-
Loan payable to SIR Royalty Income Fund (note 5(a))	35,901	35,889
Provisions and other long-term liabilities (note 2(a))	2,086	8,395
Ordinary LP Units and Class A LP Units of the Partnership (note 5(b))	59,258	94,397
	293,388	213,725
Shareholders' Deficiency		
Capital stock (note 6)	20,453	20,453
Deficit (note 2(a))	(126,304)	(162,443)
	(105,851)	(141,990)
	187,537	71,735

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

SIR Corp.

Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 17, 2019 $	12-week period ended November 18, 2018 $
Corporate restaurant operations		
Food and beverage revenue	62,069	69,117
Gift card revenue	84	47
	62,153	69,164
Costs of corporate restaurant operations (note 2(a))	57,333	63,689
Earnings from corporate restaurant operations	4,820	5,475
Corporate costs (note 2(a))	3,246	3,738
Earnings before interest and income taxes	1,574	1,737
Interest expense	422	331
Interest on loan payable to SIR Royalty Income Fund (note 5(a))	695	694
Interest (income) and other expenses (income) - net	(69)	24
Interest on lease obligation (note 2(a))	1,693	-
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 5(b))	(34,691)	11,265
Earnings (loss) before income taxes	33,524	(10,577)
Recovery of income taxes	(204)	-
Net earnings (loss) and comprehensive income (loss) for the period	33,728	(10,577)

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

SIR Corp.

Condensed Interim Consolidated Statements of Changes in Shareholders' Deficiency
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 17, 2019		
	Capital stock $	Deficit $	Total $
Balance - Beginning of period as at August 25, 2019 as reported	20,453	(162,443)	(141,990)
Change in accounting policy – adoption of IFRS 16 (note 2(a))	-	2,411	2,411
Total deficit as at August 26, 2019	20,453	(160,032)	(139,579)
Net earnings for the period	-	33,728	33,728
Balance - End of period	20,453	(126,304)	(105,851)

	12-week period ended November 18, 2018			
	Capital stock $	Contributed surplus $	Deficit $	Total $
Balance - Beginning of period as at August 26, 2018 as reported	20,484	109	(186,807)	(166,214)
Change in accounting policy – adoption of IFRS 15 (note 2(a))	-	-	688	688
Restated total deficit as at August 26, 2018	20,484	109	(186,119)	(165,526)
Change in accounting policy – adoption of IFRS 9 (note 2(a))	-	-	(21)	(21)
Restated total deficit as at August 27, 2018	20,484	109	(186,140)	(165,547)
Exercise of stock options (note 6)	35	-	-	35
Purchase of capital stock (note 6)	(66)	(109)	(51)	(226)
Dividends declared (note 6)	-	-	(1,000)	(1,000)
Net loss for the period	-	-	(10,577)	(10,577)
Balance - End of period	20,453	-	(197,768)	(177,315)

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

SIR Corp.

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	12-week period ended November 17, 2019 $	12-week period ended November 18, 2018 $
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	33,728	(10,577)
Items not affecting cash		
Change in amortized cost of Ordinary LP Units and Class A LP Units of the Partnership (note 5(b))	(34,691)	11,265
Depreciation and amortization	5,730	2,386
Income tax recovery	(204)	-
(Recovery of) provision for impairment of loans and advances	(40)	41
Interest expense on long-term debt and SIR Loan	1,117	1,025
Interest on lease obligations (note 2(a))	1,693	-
Non-cash interest income	(29)	(33)
Amortization of leasehold inducements	(136)	(126)
Loss on disposal of property and equipment	62	12
Other	(89)	(116)
Supplier rebates received	1,260	-
Distributions paid to Ordinary LP and Class A LP unitholders (note 5(b))	(2,841)	(2,784)
Income taxes recovered	204	-
Net change in working capital items (note 7)	(3,778)	(4,584)
Cash provided by (used in) operating activities	1,986	(3,491)
Investing activities		
Purchase of property and equipment and other assets - net	(1,291)	(1,618)
Advance to shareholder	-	(176)
Payment received on shareholder loan	9	9
Collection of loans and advances	46	79
Cash used in investing activities	(1,236)	(1,706)
Financing activities		
Increase (decrease) in bank indebtedness	(3,037)	3,392
Proceeds from issuance of long-term debt	10,000	4,000
Principal repayment of long-term debt	(662)	(1,587)
Proceeds from issuance of lease financing	-	253
Payment of lease obligations (notes 2(a) and 3)	(4,033)	(105)
Interest paid	(1,139)	(1,037)
Dividends paid	-	(167)
Exercise of stock options	-	35
Repurchase of capital stock	-	(226)
Cash provided by (used in) financing activities	1,129	4,558
Increase (decrease) in cash and cash equivalents during the period	1,879	(639)
Cash and cash equivalents - Beginning of period	3,614	4,783
Cash and cash equivalents - End of period	5,493	4,144

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

1 Nature of operations and fiscal year

Nature of operations

SIR Corp. (the Company) is a private company amalgamated under the Business Corporations Act of Ontario. As at November 17, 2019, the Company owned a total of 60 (August 25, 2019 - 60) Concept and Signature restaurants in Canada (in Ontario, Quebec, Alberta, Nova Scotia and Newfoundland) (the SIR Restaurants). The Concept restaurants are Jack Astor's Bar and Grill® (Jack Astor's®), Canyon Creek Chop House® (Canyon Creek®) and Scaddabush Italian Kitchen & Bar® (Scaddabush) and the Signature restaurants are Reds® Wine Tavern, Reds® Midtown Tavern, Reds® Square One, and Loose Moose Tap & Grill®. The Company also owns two Dukes Refresher® & Bar locations in downtown Toronto, and one seasonal restaurant, Abbey's Bakehouse®, which are considered Signature restaurants, and are not currently part of Royalty Pooled Restaurants (note 12(b)).

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 of $51,167,000 were used by the Fund to acquire certain bank debt of the Company (the SIR Loan) (note 12(a) and, indirectly, through SIR Holdings Trust (the Trust), all of the Ordinary LP Units of SIR Royalty Limited Partnership (the Partnership) (note 12(b)). On October 12, 2004, the Partnership acquired from the Company the Canadian trademarks used in connection with the operation of the majority of the Company's restaurants in Canada.

The address of the Company's registered office is 5360 South Service Road, Suite 200, Burlington, Ontario. The consolidated financial statements were approved for issuance by the Board of Directors on December 18, 2019.

Fiscal year

The Company's fiscal year is made up of 52 or 53-week periods ending on the last Sunday in August. The fiscal quarters for the Company consist of sequential accounting periods of 12, 12, 12 and 16 or 17 weeks, respectively. The fiscal years for 2020 and 2018 consist of 53 weeks and 52 weeks, respectively.

2 Basis of presentation

The Company prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) for interim financial reporting, including International Accounting Standard (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended August 25, 2019 and August 26, 2018, which have been prepared in accordance with IFRS.

The note disclosures for these condensed interim consolidated financial statements only present material changes to the disclosure found in the Company's audited consolidated financial statements for the years ended August 25, 2019 and August 26, 2018. Changes to the Company's accounting policies from those disclosed in its consolidated financial statements for the years ended August 25, 2019 and August 26, 2018 are described in note 2(a), recently adopted accounting pronouncements.

a) Recently adopted accounting pronouncements

IFRS 16, Leases (IFRS 16)

IFRS 16 replaces IAS 17, Leases and related interpretations. The new standard requires lessees to recognize a lease obligation reflecting future lease payments and a right-of-use asset for virtually all lease contracts, and record it on the statement of financial position, except with respect to lease contracts that meet limited exception criteria.

The Company has adopted IFRS 16 using the modified retrospective method. Under this approach, the Company applied a cumulative adjustment to shareholders' deficiency at August 26, 2019, the date of initial application. There is no restatement of prior period financial information. The adjustments to the opening balances is described in note 3.

On adoption, a cumulative adjustment was recognized directly to shareholders' deficiency as at August 26, 2019 that related adjustments as a result of the elimination of step rent liabilities under IFRS 16. For leases previously classified as finance leases, the Company recognized the carrying amount of the lease asset and lease obligation immediately before transition as the carrying value of the right-of-use asset and the lease obligation at the date of initial application. The adjustments to the opening balances below resulted from the initial application of IFRS 16 as at August 26, 2019. The prior period amounts were not adjusted. The effects on the transition were recognized directly in shareholders' deficit.

	As originally reported August 25, 2019 $	**IFRS 16 adjustments $**	**August 26, 2019** (restated) **$**
		(in thousands of dollars)	
Assets			
Right-of-use assets	-	118,711	118,711
Property and equipment	49,331	(1,527)	47,804
Total assets	71,735	117,184	188,919
Liabilities			
Current portion of long-term debt	3,194	(546)	2,648
Current portion of lease obligations	-	17,384	17,384
Current portion of provisions and other long-term liabilities	4,203	(548)	3,655
Current liabilities	52,747	16,290	69,037
Long-term debt	22,297	(876)	21,421
Long-term portion of lease obligation	-	104,873	104,873
Provisions and other long-term liabilities	8,395	(5,514)	2,881
Total liabilities	213,725	114,773	328,498
Deficit	(162,443)	2,411	(160,032)
Shareholders' Deficiency	(141,990)	2,411	(139,579)
Total liabilities and Shareholders' Deficiency	71,735	117,184	188,919
Cost of corporate restaurant operations			
Amortization of lease obligations			3,306
Corporate costs			
Amortization of lease obligations			115

As of August 26, 2019, the Company recognized right-of-use assets of $118,710,000, and lease obligations of $122,257,000 in certain operating lease arrangements for which the Company is considered the lessee with lease terms of more than 12 months. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at August 26, 2019. The weighted-average rate applied is 5.13%.

Depreciation expense on the right-of-use asset and interest expense on the lease obligations replaced the previously recognized operating lease expense. The impact of adopting IFRS 16 on the condensed interim statement of cash flows is to present the principal repayment of lease obligations in financing activities under IFRS 16, whereas previously payments for operating leases were presented in operating activities.

The following table reconciles the Company's operating lease obligations at August 25, 2019, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at August 26, 2019.

	$ (in thousands of dollars)
Operating lease commitments as at August 25, 2019	92,127
Add:	
Extension and termination options reasonably certain to be exercised	64,884
Undiscounted minimum lease payments on finance lease liabilities	1,422
Less:	
Short-term and low value leases	(42)
Undiscounted lease obligations	158,391
Discounted using the Company's incremental borrowing rate	(36,135)
Lease obligations recognized as at August 26, 2019	122,257

Amendments to IFRS 9

This standard has been amended to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss. Financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation, may be measured at amortized cost or at fair value through other comprehensive income when eligibility conditions are met. The amendment to IFRS 9 also clarifies how to account for the modification of a financial liability. Most modifications of financial liabilities will result in immediate recognition of a gain or loss. The amendment did not have a significant impact on the condensed interim consolidated financial statements.

International Financial Reporting Interpretations Committee (IFRIC) 23, Uncertainty over Tax Treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23 effective for fiscal years beginning on or after January 1, 2019. The interpretations provide guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is to be adopted using the modified retrospective approach, which requires that the adjustment be recorded in the opening deficit and comparatives are not restated. The interpretations did not have a significant impact on the condensed interim consolidated financial statements.

b) Recently issued accounting pronouncements

Amendments to IAS 1, Presentation of Financial Statements, and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

This standard has been amended to clarify the definition of 'material'. The definition of material was revised with three new aspects to the definition. The existing definition focussed on omitting or misstating information, whereas the new definition makes reference to obscuring information in addition to omitting or misstating. The new definition of material also specifies that information is material if it could reasonably be expected to influence the decisions of users. Previously the definition referred to 'could influence'. The third revision to the definition of material clarifies that the users of the financial statements refers to 'primary users'. The amendment is effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

Amendments to IFRS 3, Business Combinations

These amendments provide guidance to assist entities in determining whether they have acquired a business or a group of assets by amending the defined terms, the application guidance, and the illustrative examples found in IFRS 3. The amendments are effective for annual periods beginning on or after January 1, 2020. The Company has not yet assessed the impact of the amendment on the consolidated financial statements.

c) Accounting pronouncements adopted at August 27, 2018

IFRS 9, Financial Instruments - Classification and Measurement (IFRS 9)

In July 2014, the IASB issued an amended IFRS 9. IFRS 9 replaces International Accounting Standard (IAS) 39, Financial Instruments - Recognition and Measurement (IAS 39). In addition, IFRS 7, Financial Instruments - Disclosures is amended to include additional disclosure requirements on transition to IFRS 9. The amendments were effective for annual periods beginning on or after January 1, 2018. The standard uses a single approach based on how an entity manages its financial instruments to determine whether a financial asset is measured at amortized cost or fair value and requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings (loss). A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting. The new requirements were adopted effective August 27, 2018 using the modified retrospective method. As at August 27, 2018, the Company recorded a provision of $21,000 on amounts due from related parties. Subsequent adjustments to the provision on amounts due from related parties will be recorded in the statements of operations and comprehensive income (loss).

IFRS 15, Revenue from Contracts with Customers

During May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which supersedes IAS 18, Revenue, and IAS 11, Construction Contracts. The Company adopted the requirements of IFRS 15 using the full retrospective method as permitted by IFRS 15, which requires that comparative figures are restated. IFRS 15 is based on the principle that revenue is recognized when control of a good or service is transferred to a customer.

A five-step recognition model is used to apply the standard as follows:

1. Identify the contract(s) with the customer;

2. Identify the separate performance obligations in the contract;

3. Determine the transaction price;

4. Allocate the transaction price to separate performance obligations; and

5. Recognize revenue when (or as) each performance obligation is satisfied.

Under IFRS 15, the Company must disaggregate revenue from contracts with customers. The Company has determined that a disaggregation of revenue using Concept and Signature restaurants is adequate for its circumstances. Food and beverage revenue by segment is determined as follows:

	12-week period ended November 17, 2019 $	12-week period ended November 18, 2018 $
Jack Astor's	41,771	47,297
Scaddabush	10,578	10,507
Canyon Creek	3,492	5,217
Signature Restaurants	6,228	6,096
	62,069	69,117

Under IFRS 15, revenue is derived from the sale of goods and is recognized at a point in time when the performance obligation is fulfilled. For sales to consumers, the performance obligation is deemed fulfilled when food and beverage is purchased. Gift card revenue represents the estimated revenue that is earned on gift card sales where the gift card will never be redeemed. This breakage amount is estimated based on historical actuals as a percentage of sales. Deferred revenue represents amounts paid by customers in advance of the purchase of products which typically takes the form of pre-loaded gift cards. The amounts received are recorded as a liability within the current portion of provisions and other long-term liabilities on the condensed consolidated balance sheets. Once a gift card is redeemed to make a purchase, the liability is relieved, and revenue is recognized as part of food and beverage revenue.

As at August 26, 2018, the gift card liability decreased by $688,000.

The impact on the interim consolidated statement of financial position on the adoption of IFRS 15 is as follows:

	As originally reported August 26, 2018 $	**IFRS 15 adjustments** $	**August 26, 2018** (restated) $
	(in thousands of dollars)		
Current portion of provisions and other long-term liabilities	4,115	(688)	3,427
Current liabilities	50,815	(688)	50,127
Total liabilities	241,464	(688)	240,776
Deficit	(186,807)	688	(186,119)
Shareholders' Deficiency	(166,214)	688	(165,526)
Total liabilities and Shareholders' Deficiency	75,250	-	75,250

3 Changes in significant accounting policies

IFRS 16, Leases

On August 26, 2019, the Company adopted IFRS 16, Leases, using the modified retrospective approach, and comparative figures have not been restated. At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease obligation at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain it will exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease obligation.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease obligation is measured at amortized cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease obligation is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the consolidated statements of operations if the carrying amount of the right-of-use asset has been reduced to zero.

In applying IFRS 16 for the first time, the Company has elected to apply the following practical expedients permitted by the standard:

- Reliance on previous assessment on whether leases are onerous;
- The accounting for operating leases with lease term of 12 months or less and leases of low-value assets as at August 26, 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has also elected not to reassess whether a contract is, or contains, a lease at August 26, 2019. Instead, for contracts entered into before the transition date, the Company relied on its assessment made applying IAS 17 and IFRIC 4, Determining whether an Arrangement Contains a Lease.

The Company leases various restaurant properties, offices, warehouses, and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding lease obligation at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the repayment of the principal portion of the lease obligation and the interest portion. The interest expense is charged to the interim consolidated statement of operations and comprehensive income (loss) over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and obligations arising from a lease are initially measured on a present value basis. Lease obligations include the net present value of the following lease payments:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Right-of-use assets are subject to impairment.

Leases are included as follows in the condensed interim consolidated balance sheet as at November 17, 2019:

	Property $	**Equipment** $	**Total** $
	(in thousands of dollars)		
At August 25, 2019	116,722	2,686	119,408
12-week period ended November 17, 2019			
Additions	-	-	-
Amortization	(3,313)	(806)	(4,119)
Right-of-use assets – net at November 17, 2019	113,409	1,880	115,289

For the 12-week period ended November 17, 2019, the lease obligation transactions were as follows:

	$ (in thousands of dollars)
At August 25, 2019	120,834
Additions	-
Adjustment for capital leases previously treated as long-term debt	1,422
Repayments	(4,033)
Interest	1,693
As at November 17, 2019	119,916
Less: current portion of lease obligations	(17,384)
Long-term portion of lease obligations	102,532

The annual lease obligations for the next five years and thereafter are as follows:

	As at November 17, 2019 **$** (in thousands of dollars)
Remainder of fiscal year	13,205
Fiscal 2021	16,538
Fiscal 2022	15,441
Fiscal 2023	15,635
Fiscal 2024	15,605
Fiscal 2025 and thereafter	76,946
Total undiscounted lease obligations	153,370
Total discounted lease obligations	122,260

Interest expense on lease obligations for the 12-week period ended November 17, 2019 was $1,693,000. Total cash outflow for leases was $4,247,000 which includes $4,033,000 of principal payments and $214,000 of interest on lease obligations. Expenses for leases of low-dollar value items are not significant. All extension options have been included in the measurement of lease obligations where applicable.

4 Bank indebtedness and long-term debt

The Company has a credit agreement (Credit Agreement) with a Schedule 1 Canadian chartered bank (the Lender). The Credit Agreement, as amended on December 8, 2017 and July 6, 2018, provides for a maximum principal amount of $50,000,000 consisting of a $20,000,000 revolving term credit facility (Credit Facility 1), and a $30,000,000 revolving term loan (Credit Facility 2). The Company and the Lender also has a purchase card agreement providing credit of up to an additional $5,000,000.

Credit Facility 1 is for general corporate and operating purposes, including capital spending on new and renovated restaurants, bearing interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%, principal repaid in one bullet repayment on July 6, 2021. A standby fee of 0.65% is charged on the undrawn balance of Credit Facility 1. Provided the Company 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.

Subsequent advances on Credit Facility 2 may be requested (subject to availability and Lender approval), in minimum multiples of $1,000,000, to finance capital spending on new and renovated restaurants. Each advance under Credit Facility 2 is repayable in equal quarterly instalments based on a seven year amortization, with the remaining outstanding principal balance due on July 6, 2021. Credit Facility 2 bears interest at the prime rate plus 2.25% and/or the bankers' acceptance rate plus 3.25%.

As at November 17, 2019, the Company has drawn $28,900,000 on Credit Facility 1 and Credit Facility 2, net of cash excluding the cash balance of the Partnership (August 25, 2019 - $25,203,000).

The Credit Agreement is secured by substantially all of the assets of the Company and most of its subsidiaries, which are also guarantors. The Partnership and the Fund have not guaranteed the Credit Agreement.

The Credit Agreement contains certain financial and non-financial covenants that the Company is in compliance with as at November 17, 2019.

The Company has recorded its long-term debt at amortized cost. The Company has netted the financing fees paid against its long-term debt and amortizes these costs over the expected life of the long-term debt using the effective interest method. Unamortized financing fees on the Credit Agreement netted against the debt as at November 17, 2019 were $57,000 (August 25, 2019 - $152,000).

5 SIR Royalty Income Fund

a) Loan payable to SIR Royalty Income Fund (the SIR Loan)

The $40,000,000 SIR Loan bears interest at 7.5% per annum and is due on October 12, 2044. In conjunction with the Credit Agreement, on July 6, 2015, the Company, the Fund and the Partnership entered into an Intercreditor Agreement to subordinate and postpone their claims against the Company in favour of the Lender. The Fund and the Partnership have not guaranteed the Credit Agreement.

The long-term debt is permitted indebtedness within the meaning of the agreements between the Fund, the Partnership and the Company and, as a result, the Fund and the Partnership have, as contemplated in the existing agreements, subordinated and postponed their claims against the Company to the claims of the Lender. This subordination, which includes a subordination of the Partnership's rights under the Licence and Royalty Agreement between the Partnership and the Company, whereby the Partnership licenses to the Company the right to use the trademarks and related intellectual property in return for royalty payments based on revenue, has been effected pursuant to the terms of the 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 Licence 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 the Company to the Fund and the Partnership are permitted for such amounts as are required to fund their monthly operating expenses, up to an annual limit. In addition, the Company, the Fund and the Partnership 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. The Company and each obligor provided an undertaking to cooperate and explore all options with the Fund to maximize value to the Fund's unitholders and the Company 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.

Interest expense charged to the consolidated statements of operations and comprehensive income (loss) for the 12-week period ended November 17, 2019 was $695,000 (12-week period ended November 18, 2018 - $694,000), which includes interest on the SIR Loan of $683,000 (12-week period ended November 18, 2018 - $683,000) and amortization of financing fees of $12,000 (12-week period ended November 18, 2018 - $11,000). Interest payable on the SIR Loan as at November 17, 2019 was $392,000 (August 25, 2019 - $459,000) and is recorded in trade and other payables.

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

b) Ordinary LP Units and Class A LP Units of SIR Royalty Limited Partnership

	12-week period ended	
	November 17, 2019 **$**	**November 18, 2018** **$**
	(in thousands of dollars)	
Balance - Beginning of period	105,755	137,864
Change in amortized cost of the Ordinary LP Units and Class A LP Units of the Partnership	(34,691)	11,265
Distributions paid to Ordinary LP and Class A LP unitholders	(2,841)	(2,784)
Balance - End of period	68,223	146,345
Less: Current portion of Ordinary LP Units and Class A LP Units of the Partnership	(8,965)	(11,358)
Ordinary LP Units and Class A LP Units of the Partnership	59,258	134,987
The following is a summary of the results of operations of the Partnership:		
Pooled Revenue*	60,661	66,382
Partnership royalty income*	3,705	3,983
Other income	6	6
Partnership expenses	(15)	(17)
Net earnings of the Partnership	3,696	3,972
The Company’s interest in the earnings of the Partnership	(1,430)	(1,437)
Fund’s interest in the earnings of the Partnership	2,266	2,535

*Includes revenue from the Royalty Pooled Restaurants. The Partnership owns the Canadian trademarks (the SIR Rights) formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. Partnership royalty income is 6% of pooled revenue in accordance with the Licence and Royalty Agreement, plus a Make-Whole Payment for closed restaurants, from the date of closure to December 31 of the year closed.

On October 12, 2004, the Partnership issued Ordinary LP and GP Units to the Fund for cash of $11,167,000. The holders of the Ordinary LP Units and the Class A LP Units are entitled to receive a pro rata share of all residual distributions of the Partnership. The distributions are declared by the Board of Directors of SIR GP Inc., which is controlled by the Fund. Accordingly, the Ordinary LP Units and the Class A LP Units of the Partnership have been classified as a financial liability in the consolidated statements of financial position. The Ordinary LP Units and the Class A LP Units are accounted for at amortized cost, with changes in the carrying value of Ordinary LP Units and the Class A LP Units of the Partnership recorded in the consolidated statements of operations and comprehensive income (loss).

During the 12-week period ended November 17, 2019, distributions of $2,265,000 (12-week period ended November 18, 2018 - $2,534,000) were declared to the Fund through the Partnership. Distributions paid during the 12-week period ended November 17, 2019 were $2,841,000 (12-week period ended November 18, 2018 - $2,784,000). The Fund, indirectly through the Trust, is entitled to receive a pro rata share of all residual distributions. Distributions payable to SIR Royalty Income Fund as at November 17, 2019 were $3,972,000 (August 26, 2018 - $4,548,000).

The Company, as the holder of the Class A GP Units, is entitled to receive a pro rata share of all residual distributions of the Partnership and the Class A GP Units are exchangeable into units of the Fund.

The Partnership owns the SIR Rights formerly owned or licensed by the Company or its subsidiaries and used in connection with the operation of the majority of the Company's restaurants in Canada. In 2004, the Partnership granted the Company a 99-year licence to use the SIR Rights in most of Canada in consideration for a Royalty, payable by the Company to the Partnership, equal to 6% of the revenue of the Royalty Pooled Restaurants (the Licence and Royalty Agreement).

Under the terms of the Licence and Royalty Agreement, the Company may be required to pay a Make-Whole Payment in respect of the reduction in revenue for restaurants closed during a reporting period. As of October 12, 2019, the 15th anniversary of the closing date of the Fund's Initial Public Offering, the Company is not required to pay any Make-Whole Payment in respect of a closed restaurant. On January 1 of each year (the Adjustment Date), the restaurants subject to the Licence and Royalty Agreement are adjusted for new SIR Restaurants opened for at least 60 days preceding such Adjustment Date. At each Adjustment Date, the Company will be entitled to convert its Class B GP Units into Class A GP Units based on 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 revenue of the new SIR Restaurants exceeds 80% of the initial estimated revenue. Conversely, converted Class A GP Units will be returned by the Company if the actual revenue is less than 80% of the initial estimated revenue. In December of each year, an additional distribution will be payable to the Class B GP unitholders based on actual revenue of the new SIR Restaurants exceeding 80% of the initial estimated revenue or there will be a reduction in the distributions to the Class A GP unitholders if revenue is less than 80% of the initial estimated revenue.

On January 1, 2019, two (January 1, 2018 - three) new SIR Restaurants were added to Royalty Pooled Restaurants in accordance with the Partnership Agreement. As consideration for the additional Royalty associated with the addition of two new SIR Restaurants on January 1, 2019 (January 1, 2018 - three), as well as the Second Incremental Adjustment for three new SIR Restaurant added to Royalty Pooled Restaurants on January 1, 2018 (January 1, 2017 - one), 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, 2018 – three) SIR Restaurants during 2018. The net effect of these adjustments to Royalty Pooled Restaurants was that SIR converted 197,824 Class B GP Units into 197,824 Class A GP Units (January 1, 2018 – SIR converted 34,810 Class B GP Units into 34,810 Class A GP Units) on January 1, 2019 at a value of $3,986,264 (January 1, 2018 - $2,846,999).

In addition, the revenue of the three (January 1, 2017 – one) new SIR Restaurants added to Royalty Pooled Restaurants on January 1, 2018 exceeded 80% of the Initial Adjustment's estimated revenue (January 1, 2017 – revenue of the one new SIR Restaurant was less than 80% of the Initial Adjustment's estimated revenue) and, as a result, a special conversion distribution of $90,971 was declared on the Class B GP Units in December 2018 and paid in January 2019 (the distributions of the Class A GP Units were reduced by a special conversion refund of $52,078 in December 2017 and paid in January 2018).

As a result of the permanent closure of one SIR restaurant during the period, a Make-Whole payment to the Partnership of $65,000 has been recognized by the Company for the 12-week period ended November 17, 2019 (12-week period ended November 18, 2018 - $nil).

As at November 17, 2019, after the net effect of the adjustments to Royalty Pooled Restaurants on January 1, 2019, the Company's residual interest in the Partnership is 20.91% (August 25, 2019 – 20.91%). The Company continues to maintain control of the Partnership and, therefore, continues to consolidate the Partnership.

c) Advances receivable from SIR Royalty Income Fund

Advances receivable from SIR Royalty Income Fund as at November 17, 2019 were $3,608,000 (August 25, 2019 - $3,294,000). Advances receivable are non-interest bearing and due on demand. Advances receivable are recorded in trade and other receivables.

The Company, through 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. For the 12-week period ended November 17, 2019, the Partnership provided these services to the Fund and the Trust for consideration of $6,000 (12-week period ended November 18, 2018 - $6,000), which was the amount of consideration agreed to by the related parties.

6 Capital stock

During the 12-week period ended November 17, 2019, a dividend in the amount of $nil (12-week period ended November 18, 2018 - $1,000,000) was declared to the holders of the issued and outstanding common shares of the Company as of August 25, 2019 (August 26, 2018) of which $nil (12-week period ended November 18, 2018 - $167,000) was paid during the period.

During the 12-week period ended November 17, 2019, nil (12-week period ended November 18, 2018 - 35,000) stock options were exercised and nil (12-week period ended November 18, 2018 - 35,000) common shares were issued for consideration of $nil (12-week period ended November 18, 2018 - $35,000). During the 12-week period ended November 17, 2019, nil (12-week period ended November 18, 2018 - 35,000) common shares were repurchased for consideration of $nil (12-week period ended November 18, 2018 - $226,000).

7 Supplemental cash flow information to the consolidated statements of cash flows

The net change in working capital items is as follows:

	12-week period ended November 17, 2019 $	12-week period ended November 18, 2018 $
	(in thousands of dollars)	
Trade and other receivables	144	(196)
Inventories	91	(79)
Prepaid expenses, deposits and other assets	(802)	(697)
Trade and other payables	(3,061)	(3,537)
Provisions and other long-term liabilities	(150)	(75)
	(3,778)	(4,584)